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ECONOMIC STATE OF THE BARGE INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

ECONOMIC STATE OF THE BARGE INDUSTRY

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ECONOMIC STATE OF THE BARGE INDUSTRY

WEDNESDAY, AUGUST 3, 1983

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON SURFACE TRANSPORTATION,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:32 a.m. in room SR-253, Russell Senate Office Building, Hon. John Danforth (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Pamela Garvie, staff counsel, and Linda Morgan, minority staff counsel.

OPENING STATEMENT BY SENATOR DANFORTH

Senator DANFORTH. This morning the Surface Transportation Subcommittee will be taking a look at the economic state of the barge industry. This comes at a time when Congress is considering a number of different bills dealing with the construction and funding of water projects. These are bills which will affect the future of the barge industry. Accordingly, these bills should be considered with the full knowledge of the role the barge industry plays in this country and the financial difficulties involved therein.

The purpose of this morning's hearing is to develop such a record on the barge industry. We are going to be receiving oral testimony from barge operators and from those representing communities and businesses that have been adversely affected as a result of the barge industry's financial problems.

I would also like to invite other interested individuals and groups to submit written statements to the subcommittee. The record will be open for 2 weeks after the hearing.

We are delighted to have as our first witness Bill Frenzel, who is a member of Congress from Minnesota.

STATEMENT OF HON. BILL FRENZEL, U.S. REPRESENTATIVE FROM MINNESOTA

Mr. FRENZEL. I thank you very much, Mr. Chairman.

I have provided a written statement for the committee and I ask unanimous consent that it be made a part of the record.

Mr. Chairman, I am very pleased to have this opportunity to appear before this committee today, simply to set the stage for the testimony which is to follow. And I do not know exactly what that testimony is, but I know something of its general nature.

I think the main reason that I am here is that I feel some closeness to this industry. In the old days before I fell into the public

trust, one of my previous incarnations was that of a stevedore. So for a number of years I worked very closely with the industry, watching its growth and development, and understood, I think better than many people, the role that it played in the development of the Midwest and particularly in my own area, the upper Midwest.

It is no secret now, Mr. Chairman, that the waterways industry has fallen on evil days. Nobody tried to put the wood to the industry. It is something that happened. A number of factors, of which everyone is aware, are responsible.

Of course, the first big shock was the shattering of the grain agreement with the U.S.S.R. by President Carter when the Soviets moved into Afghanistan. That upset what was then our largest grain market, and of course grain is the dominant commodity that moves on the river, at least in my area and probably in yours, too.

That of course was followed by a world recession, which was more difficult and deeper in other parts of the world, particularly those areas in which we are likely to sell food. And because of this, of course, we suffered grievous overproduction of grain in the United States, so that we became a surplus producer.

The grain hung over the market, and obviously other things were happening in the production area, so that the barge industry, having built up to a very high level of capability, suddenly found itself without a significant portion of its business.

At the same time, the oil glut began to reduce the price of energy. That of course made coal far less attractive and far less competitive than it has been. In our area, coal is the other main product that moves in water transportation. That too has been greatly depressed.

The net now is that, while the United States is now coming out of its recession, the rest of the world is going to lag. In the meantime, we have adopted a new agricultural policy in which agricultural producers are urged to PIK rather than to plant. That, of course, means that whatever happens, there will be less, even a greater amount less, moving on our rivers.

The result is the barge industry is left with a huge overcapacity, with very little revenue to sustain a very large fixed cost item for its equipment, having of course already laid off a huge number of its valuable and highly skilled employees.

I am not sure what needs to be done about this, Mr. Chairman, but I simply mention it as an observer who is somewhat familiar with the scene, although my observations are somewhat out of date and more general than they would have been 15 years ago.

There is a real problem there. What the Government can do or should do, I think, is a matter for those of you who are expert on this committee and within the Department of Transportation to figure out.

I think the industry will also detail to you some intermodal problems. It is not my business to comment on them and I think they will be detailed to you by others. I just want to tell you, Mr. Chairman, that from my observations the crisis is real and I hope the committee is attentive to the testimony of those who follow, because I do think it is terribly important, as this country comes out

of its recession, that it have the transportation capacity it needs to continue to propel the economy to its new heights.

Thank you, Mr. Chairman.

Senator DANFORTH. Well, we thank you.

We realize the importance of the industry to the Midwest.

Mr. FRENZEL. Mr. Chairman, my part of the world is dependent on barge transportation to a greater extent than its proportion of our products that are hauled out, grain, and in coal. The coal industry has been a strong element in keeping other freight rates of other modes down and has brought, in my judgment, great benefit to the region beyond the proportion of freight that it hauls.

Senator DANFORTH. Is it your view that, at least in part, the problems of the barge industry have been created by Government policy?

Mr. FRENZEL. In my judgment, it would have been impossible for any prudent business manager to anticipate the severing of the U.S.-U.S.S.R. grain agreement, which began a cycle that has precipitated the situation.

Senator DANFORTH. Thank you very much.

Mr. FRENZEL. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF HON. BILL FRENZEL, U.S. REPRESENTATIVE FROM MINNESOTA

Mr. Chairman, I appreciate the opportunity to testify before this Committee today and emphasize to you the distressing state that the Barge Industry is presently experiencing.

Mr. Chairman, I feel that the situation of the depressed Barge Industry is one which Congress, and the Federal Government, must take some amount of responsibility for. There was certainly no grand design or scheme on our part, or anybody elses to sabatoge the Barge Industry. However, in attempting to rectify other problem areas which our economy, and foreign policy faced, we have inadvertantly crippled a major leg of our country's Transportation base.

Of all the circumstances we could discuss today, none had so great an impact on the River Industry as the Soviet Grain Embargo imposed by the Carter Administration. This embargo not only shut off a substantial amount of grain already contracted for, but it also sent signals to the rest of the world's grain buyers that the United States could no longer be considered a reliable supplier, and that they should look elsewhere to purchase their grain. This had the net effect of virtually pulling the rug out from under the Barge Industry's projected business, which relies so heavily on agriculture products, and left them simply overbuilt.

The recent announcement by the Administration that the Soviet Union is willing to enter into another long term grain agreement is a very good sign that we are moving towards repairing our trade relations with them, and other potential customers. This is due partially, I believe, to our successful efforts to write some necessary contract sanctity provisions into our laws. Unfortunately, it barely begins to repair the damage done to so much of our agricultural economy, including the Barge Industry.

One of the government's responses to the tremendous surplus of grain, which the lack of available markets caused, was to institute the Payment-In-Kind program. I think that we can all say, with some certainty, that the PIK program saved the American Farmer from an otherwise dismal year. Unfortunately, like so many of our Ag-suppliers, the River Industry has suffered from the producers good fortune. The resulting higher grain prices have made our commodities even less attractive on the world markets, further impairing the progress we have made, with our contract sanctity measures, towards regaining our share of those markets.

Other problems, such as the introduction of user fees in 1981, and the use of barges as a tax shelter for outside investors, increased the dehabilitating factors which left the Industry overbuilt, and unable to cover the costs which a significant lack of business left them with.

Mr. Chairman, I have tried to provide you with a brief outline of some of the misfortune that the Barge Industry has suffered out of government action, or in some

cases inaction. However, despite the course of events I have just described, I am still optimistic about the future of this Industry. Although I would not suggest to anybody in this room that prosperity will happen as quickly as calamity did, I believe that several years down the road this Industry, like the reat of our economy, can be vibrant and prosperous once again.

As a nation, Mr. Chairman, we cannot allow our Transporation base to fall into decay, as we have seen happen to so much of our Industrial base.

It is my hope that these hearings will be able to bring forth some constructive suggestions on how to keep the River Industry alive during these troubled times.

Senator DANFORTH. We now have a panel of barge operators: John Lambert, John Donnelly, and John Baskin.

Mr. Lambert.

STATEMENTS OF JOHN W. LAMBERT, CHAIRMAN OF THE BOARD, TWIN CITY BARGE, INC.; JOHN DONNELLY, JR., PRESIDENT, INGRAM BARGE LINES; AND JOHN BASKIN, FORMER PRESIDENT, PORT CITY BARGE LINE

Mr. LAMBERT. Thank you, Mr. Chairman. I appreciate the opportunity of being here today.

My name is John W. Lambert. I am chairman of the board of Twin City Barge, Inc. My company is a national over-the-counter corporation, operating on all three of the coastal areas, the Atlantic, the Pacific, and the gulf coast, and also on the entire inland river system, the Mississippi River system as well as the Columbia River system. We have some 90 boats and about 400 barges. We have 1,500 shareholders and about $200 million a year in sales.

I founded this company with one towboat in 1952, and it has been expanded with mergers in recent years. That story, that sort of growth, is not unique to our industry. It is really rather common. This is an industry of rugged individualists and family companies who have generally started with nothing and thrived in an unregulated free market environment for three or four decades.

The message we want to bring to Washington today is that this lowest cost, most energy efficient mode is in serious jeopardy. This applies to all commodities that we move, but I will focus my testimony on export grain shipments.

In 1979 the average freight rate for what we were shipping at that time was about 2½ times what it is today for points on the Mississippi River system to the export port of New Orleans-Baton Rouge, La. The current rate is barely above the rate prevailing in 1978, before inflation and fuel costs pushed our operating expenses virtually through the roof.

For my company, that spelled the difference between a modest profit in 1981 and a $3,500,000 after-tax loss last year, our first loss in our 30-year history. What happened is a complicated story, but it is largely one of Government policy or lack thereof.

Because of the intense competition in this industry, where no one has a monopoly on any product or shipper, rates tend to be primarily a function of supply and demand. Predicting how our market will react to an array of factors compels us to rely on pretty sophisticated forecasts from the Department of Agriculture, private commodity forecasters, and international grain traders, for the information concerning long- and short-term trends in the grain market.

The unanimous opinion of everyone in this field in 1979 was that grain exports would rise significantly over the next 5 years. Very specifically, the Soviets were going from 12 million metric tons of imports from the United States to 25 million metric tons. That was their announced intention.

My company, along with others in the industry, based our business planning decisions on those estimates. We went into the high-interest money markets of that time to finance new equipment, at the same time that nonoperating tax shelter partnerships began to, if I may say so, play around in the water transport business.

No one, including those investment bankers offering tax-saving barge deals, to dentists and lawyers, and so on, could have imagined that the demand side of the supply-demand equation was about to change so dramatically. You need no explanation of the January 4, 1980, Soviet grain embargo by President Carter. As a result of this action and contemporaneous Federal actions, the balance of supply and demand was turned upsidedown in a relatively narrow timeframe.

The bootstrap entrepreneurs of this industry were suddenly plunged into the red. We did not forget how to run our companies. We became the victims of the conditions. The export demand went down, while tax policies were encouraging an oversupply of equipment.

To compound these problems, the Reagan administration for some time had a trade chill with the Soviets. Hopefully, we have seen the end of that over this past week.

Concurrent with these events, Government policies aimed at assuring the revitalization of rail transportation have had some inevitable competitive impact on us. The decade of railroad assistance acts and the recent Staggers Act have eroded the viability of our industry further.

As a consequence of all of these various Government initiatives, we find that water carriers are awash in red ink, while the railroad industry is being touted by Wall Street as the investment of the eighties.

We cannot undo the dramatic effects of these Government policies overnight, and we know that members of this committee, along with the rest of Congress, are trying to deal responsibly with these matters.

For those of us who have been in the industry for a long time, we simply cannot avoid the realities of the present and the near future. All of the experts are agreeing that the grain exports will not increase significantly, despite the Russian and Chinese trade deals recently made for at least a couple of years. They will increase. There is a light at the end of the tunnel, but we will not see a jump back up to that 25 million metric ton level.

Even if they did, this glut of equipment caused by the investor-owned barges would continue to hold the rates down. In addition, we are paying user fees. That is another factor. We cannot pass along that cost when we are operating in the red. And the collective effect of all of this has been devastating.

While we know the Government never intended, as Mr. Frenzel said, to put us in such dire straits, we are nevertheless the victims of a series of legislative and executive branch decisions. If we could

put our plight in a phrase or a sentence to you, Senator, we are like the man who suffered the death of a thousand cuts.

Thank you for the opportunity, Senator. And if you have any questions of me, I would be glad to answer them or pass them on to my colleagues.

[The statement follows:]

STATEMENT OF JOHN W. LAMBERT, CHAIRMAN OF THE BOARD, TWIN CITY BARGE & TOWING CO.

Twin City Barge is a publicly owned transportation company with headquarters in South St. Paul, Minn. I started this company in 1952 with one boat and no employees. Today, we operate over most of the inland waterways and all three coastal regions of the United States.

Before discussing the particular subject I will be addressing today, it might be helpful to discuss our industry generally. The barge and towing industry brings direct services to 41 States on more than 25,000 miles of navigable waterways. Of the Nation's 150 largest cities, more than 80 percent are located on or near navigable waterways. The industry carries 62 percent of all domestic marine traffic, generating over 300 billion ton-miles annually.

We transport most of country's vital commodities, with grain and energy-related products leading the way. Transportation by barge is both the most economic and most fuel-efficient mode. While this is true for all commodities, the best example is in the transportation of grain, where, in 1981, the railroads charged more than 3 times our average rate.

The message that we in the industry are bringing to Washington today is that this low-cost, energy-efficient alternative to rail transportation is in serious jeopardy. I want to emphasize that this is true for all commodities. But, I would like to focus on the shipment of grain, which is one of our principal operations.

In 1979, the average freight rate per barge loan for the shipment of grain was about 2½ times what it is today. The current rate is barely above the rate prevailing before years of inflation pushed our fuel, labor and capital costs virtually through the roof. For my company, that means the difference between a modest profit in 1981 and a 3½ million loss last year, our first in thirty years. What happened is a complicated story in all of its parts, but one of the reasons I am here today is that various government policies played no small part.

To understand why this is so, you have to understand the market forces in 1979, for barging is, first and foremost, an example of the free market system. Because of the intense competition within the industry, where no one has a monopoly on any product or shipper, rates tend to be primarily a function of supply and demand. Thus, our business is based on predicting how our market will react to many complex factors, and we rely on sophisticated forecasts from the U.S. Department of Agriculture, private forecasters, and the international grain traders for information concerning long and short-term trends in the grain markets. The unanimous opinion of everyone in this field in 1979 was that grain exports would rise significantly over the next five years. My company, along with everyone else in the industry, based our business planning decisions on these estimates.

And one of those decisions was to purchase more equipment, which required substantial lead time. At the same time, what seemed to be only a nuisance appeared in our industry. Investors seeking tax shelters began to form partnerships and "play around" in the industry just long enough to realize their tax savings. No one was seriously concerned about these semi-operators because the experts, including ourselves, were sure about the future, and there was no reason to think that the forces of supply and demand were to change so quickly.

On January 4, 1980, President Carter announced an embargo on the shipment of grain to the Soviet Union. I need not tell this Committee about the effects of the embargo on the agricultural community or this country. Whatever its foreign policy purpose, it has left this industry in a perilous state. Today, no operator in grain can attract any business at a rate that covers even his out-of-pockets expenses, much less cover fixed or overhead costs. Decisions focus on cutting losses, not making a profit. And that's for us fortunate few; for others the choice is made by the lenders. Companies that have operated successfully for decades have been terminated.

To us in the industry, this is the result of an economic market where the balance of supply and demand was turned upside down in a relatively narrow time frame because of decisions made here in Washington. The boot strap entrepreneurs of this industry did not suddenly forget how to run a barge company. Rather, we were cap-

tive to a situation where foreign policy radically reduced the demand for export grain at a time when tax policy was encouraging a dangerous over supply of equipment. To compound the problem, the Reagan Adminstration continued a de facto embargo of the Soviets, and with the PIK program, retarded our ability to compete in the world market while enhancing returns to other agricultural exporting countries.

At the same time, government policies aimed at assuring the profitability of rail transportation have seriously undermined our competitive position. A decade of railroad deregulation, coupled with direct and indirect subsidies of billions of dollars to the rails, has opened our industry to potentially lethal attacks on our profitability. We welcome fair competition from other modes because we still offer the best bargains in transportation. But, the key word is "fair," and no one could objectively characterize as "fair" the type of selected rate practices currently used by the rails to choke off our business. No one in our industry understood the intent of the Staggers Act to allow the railroads to set predatory rates on barge-competitive traffic, and subsidize those rates through higher charges to rail captive shippers. It should come as no surprise to close observers of the transportation system that, while our industry is awash in red ink, the railroad industry is being touted by Wall Street as the investment of the 1980's.

No one can undo the dramatic effects of these government policies overnight, and we know that members of this Committee, along with the rest of Congress, are trying to deal responsibly with our transportation and export policies. The long-range prognosis gives us some hope, for our industry serves as a vital part of the chain between our most basic commodities and a U.S. and world population that needs those commodities to survive and prosper.

But, those of us who have been in the industry for a long time, cannot avoid the realities of the present and near future. All of the experts now say that grain exports will not increase significantly for at least a couple of years, and, even if they did, the glut of equipment caused by investor owned barges would continue to hold down rates below our costs. No one could have predicted that, in less than two years, we would be trapped in a market where too many barges would be chasing too little freight. But, that is where we are today and the red ink on our income statements is the result.

If there is to be a return to profitability, which is the only hope for survival for our industry, it may be years ahead. Speaking for my company, and everyone else in our industry, the question we all have is whether there will be an industry left when the market finally shrugs off the effect of a decade of consistently negative policy decisions affecting water transport.

Senator DANFORTH. Thank you.

Mr. Donnelly.

Mr. DONNELLY. Thank you, Mr. Chairman.

My name is John Donnelly. I am president of Ingram Barge Co., part of Ingram Industries, Inc. The Ingram family has been in the barge business for almost 40 years. We began transporting crude oil and petroleum products, which is still our primary business today. We also move limestone, coal, and grain, and our boats operate over the entire Mississippi River system. The headquarters are in Nashville, Tenn.

I have come to Washington today to tell you something about our industry, where it has come from and where it is today. Although I will, of course, be speaking primarily about my own company, what I have to say applies to just about everyone in our industry.

We at Ingram have always been proud of what we do. The availability of a stable and relatively inexpensive source of energy—the chief commodity we move—is one of the things that has built our country. As a provider of an essential link between producer and consumer, we feel that we have played an important part in our country's growth.

The dikes and revetted banks that protect billions of dollars of farmland and industry along the rivers are made of the limestone

that we transported down the river. And the roads and jetties that make commerce along the gulf coast go came from our barges.

The fact that many of the commodities we transport translate into jobs, energy, and progress for our country is not the only benefit our industry provides. For we transport this material at the lowest cost to the shipper and ultimately the consumer.

In fact, barge transportation moderates the cost of transportation across the other modes as well. Each year, the Tennessee Valley Authority publishes a list of 85 commodities showing that barge-competitive rates charged by the other modes, primarily the railroads, dramatically undercut their own comparable noncompetitive rates, sometimes by as much as 75 percent.

In 1978 through 1980, Ingram Barge Co., experienced good years. Our traditional product markets were expanding and we were beginning to gear up for the coming boom in export coal that the experts were predicting. With the exception of an escalation in the price of fuel brought on by the situation in Iran, rates were stable and business conditions generally favorable. Employment at our company was at or near its peak and the company was making steady profits.

By the middle of 1981, we began to worry about a significant downturn in business. In 1982, our business was, in one word, disastrous. Thus far in 1983, we are experiencing more of the same. If there is an adjective beyond disastrous, that would describe 1983.

We have slashed costs everywhere, most noticeably in our employment, which is approximately one-half of what it was. Last year, Ingram Barge Co., posted the worst loss in its history. And as I have mentioned, this year promises to be even worse.

Ingram is, of course, not alone. We recently participated in a survey done by Arthur Andersen & Co., concerning the financial performance of 15 leading barge companies. Between 1980 and 1982, the 15 companies experienced a revenue decline well in excess of 10 percent. From operating profits of approximately $125 million in 1980, the companies lost nearly $30 million in 1982. This profit or loss as a percentage of capital investment went from 10 percent to a minus 1.5 percent. Employment was off in excess of the national rate.

Although it is a complex story, let me tell you something about what happened. First and foremost, the business of barging is intensely competitive. To be successful, a company must anticipate market conditions and then be willing to make a substantial capital investment.

At Ingram we operate close to 100 single and double haul tank barges and over 300 hopper and deck barges. Each one of those tank barges costs approximately three-quarters to a million dollars or more. The hopper and deck barges cost approximately one-half of that. Our 19 boats average around $4 million each. As you can see, barging is a very capital-intensive industry.

I need not tell this committee what has happened to the cost of capital over the last couple of years. Suffice it to say that, for our industry to be able to cover that cost rates would have to be at least two or more times what they are today. Indeed, the rates we are able to get today hardly cover the cost of fuel and crew, much less the interest expense on our capital investment.

This leaves us with an unenviable dilemma. We can tie up our equipment and lose a lot of money, or we can take the business that is out there and lose approximately the same amount of money. The situation is that simple and that frustrating.

I do not, however, wish to leave the impression that interest costs are the only factor in our predicament. Quite the contrary, it is the cost of equipment plus the change in our markets which has caused our depression. And many of these changes are the direct result of the lack of a coherent energy policy on the part of the Federal Government.

The past policy of converting powerplants from foreign oil to domestic coal has now disappeared, leaving an oversupply of coal barges in its wake. Similarly, the Government has flip-flopped on policies concerning the use of natural gas or residual fuel oil in industrial boilers. Barges built to transport the energy source out of favor now add to our idle fleet.

In short, we do not at all object to making business decisions based on an analysis of the relevant product markets. We do object to wasting millions of dollars of capital just because the Government decides to intervene in those markets and then lacks the will or foresight to stick by its decision.

I have been at Ingram for 27 years and I have become accustomed to crises brought on by high water, low water, lock outages, and the like. Although we cannot anticipate when these things are going to happen, we can and do plan on them happening sometime. What we cannot anticipate are sudden shifts in our fundamental commodity markets, or at least the major shifts that have occurred in the last 2 years.

When you have been in this business as long as I have, you hopefully can learn how to step back and put things in perspective. The need for our services in the transportation network is still apparent. The floated ton is still the cheapest ton. And there is no way that this country, and indeed the rest of the world, can survive, much less prosper, without the basic commodities we transport.

But the benefits our industry bestows should not be taken for granted. Once conditions reach the kind of ultimate crisis which looms just around the corner for our industry, our service to this country can and will end. Those are the stakes that are currently on the table, and I can only hope that, as our industry hangs on to its precarious existence, this committee and the rest of the Congress will see that reality and act accordingly.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Donnelly.

Mr. Baskin.

Mr. BASKIN. Thank you, Mr. Chairman.

My name is Jack Baskin. I was the past president of a small independent barge line in Greenville, Miss. I say "past president" because our company went out of business a year ago, for reasons which have been pointed out here and which will continue to be pointed out.

I would prefer to summarize rather than read from my testimony, because I think my story is the story of the small independent towboat and barge operator whose future is very, very bleak.

I, too, started out about 25 years ago with 1 boat, and, up until a couple of years ago, owned and operated 6 towboats and some 188 barges, half of which were owned. In providing a service into and out of the Missouri River during the navigation season thereon, a specialized type of service.

I find it rather painful, really, to go back over some of that history. I would like to talk about that small operator in a small town—there are many of them in many small towns throughout the inland waterways—and what the future appears to be for them.

I question whether a small operator can crank up again, as I did 25 years ago, because of the crisis in confidence that we have out there. I think that confidence can be broken down into three areas.

One is with that man who might have some money to invest. To commit that money plus his energies plus his talents to try to build a small independent barge line in the environment in which we find ourselves today would be right foolish. I would suggest, as Mr. Lambert has already said, he would be better served to put his money in another mode, something like railroads.

The second thing is the confidence on the part of the shipper. We were on the eve of the harvest in the Missouri Basin and most of our business is involved, or was involved, in moving food and feed grains out of the basin, primarily to export outlets such as New Orleans, and coming back with salt and fertilizer and things such as that.

A shipper had come to count on us after some 15 or 20 years of service, and suddenly on the eve of the harvest to have that service shut down—I will not go into the reasons why and the timing of the decision—really destroyed his confidence in that small independent barge operator. I think he will look very carefully in the future at any new venture, such as ours, without substantial financial reserves to help with his operational deficits. I think he will be very careful about committing his movement of grain to that barge line.

The third item is a crisis in confidence on the part of the lender. Gone is the time when you could go to your local bank and finance a towboat. When we first started out, the prospects were great in the industry and the role that the small operator played appeared great. But it is a capital intensive industry and we simply cannot go to those capital sources now and hope that we can raise some money.

So ours is a crisis in confidence.

I would like to talk about for just a few moments what this means, not only to the other operators in my home town, but, as I said, operators similar to ours in other towns. I think that many local people have begun to appreciate how much of a contribution this operator made to the local economy in my home town. Automobile dealers—I happened to visit with one that was talking to me about local business. He said he did not realize how many automobiles were being sold to people working in related industries, whether it was the repair industry, boat or barge building industry or whatever it might be.

I'd like to refer to my notes for just a second. Our industry locally in Greenville, Miss., in 1980 provided nearly 10,000 jobs over 18 counties and pumped nearly $90 million in payroll into the local

economy. Today these figures have been cut in half, and the effect is rippling through our local trade area.

This local industry happens to be focused on the category in which I fall, the small independent barge operator. The damage to the local economy has been tremendous and I think the opportunity for another small operator to strike out in this industry and make it is bleak, indeed.

Thank you very much, sir.

[The statement follows:]

STATEMENT OF JACK BASKIN

My name is Jack Baskin, and I was formerly the President of Port City Barge Line. I say "formerly" because I lost my business last year. That is one reason I am here today—to tell you what the statistics on the depression in our industry really mean to people.

I started Port City in 1958 with twelve men, just enough to run one towboat. Two years later, we acquired some barges. We operated primarily on the Missouri River, and served most of the large grain companies in that basin. The bulk of the grain we shipped was headed for export in New Orleans.

In 1980, we moved more tonnage into and out of the Missouri River Basin than any other barge line. We operated 188 barges (half of which we owned); we owned and operated towboats; we owned a shipyard at Leavenworth, Kansas; and we had developed our own fleeting areas along the Missouri River. Our gross revenues for 1980–81 were in excess of $30 million, and we employed approximately 200 people.

In short, business conditions in 1980 were excellent. We were making good profits and had substantial equity in our equipment. As you will recall, the theme in agricultural America was that we were going to feed the world. As a result, production, processing, storage, and transportation facilities expanded to meet the need. And we went right along with that trend.

Even now, nearly one year after the close of our operations, it is still hard to believe that it could have all happened. All businessmen, particularly those in our industry, are aware of the risks which are associated with any business operation. But, those risks had changed very little over my 25 years in the business. What happened in 1981-1982 can only be described as a nightmare reversal of the world I, and my fellow operators, used to live in.

My friends who have just spoken have told you something of the events which caused this reversal—the oversupply of equipment, the Soviet grain embargo, the loosening of the reins on railroad competition, the user fee fuel tax imposed by the government, and the competition from investor tax-motivated barge management companies. Rather than add to this list, and dwell on a period that I would just as soon forget, I thought that I would talk with you today about the future.

In my opinion, that future holds precious little reason for hope, especially for the smaller, independent barge lines like Port City. My reasoning has little to do with demographic trends or grand economic theories; rather, it can be summed up in one word—confidence. For I think our industry faces a long-range crisis of confidence.

First, it will be long time before those few companies similar to mine which survive this depression will be comfortable about taking the risks that are so essential to a successful business operation. Our industry is intensely competitive, not only with other modes, but also within the industry itself. It is simply impossible to make any money without being willing to commit a substantial amount of time and resources; no one is willing to make that kind of commitment, however, when the chances of success are as slim as they are presently.

Second, I believe that there is also a risk that our major customers will lose confidence in our ability to follow through on our commitments. If there is any one thing I regret most, it was the loss of the good will with my customers I had worked so hard to build over 25 years, a loss caused by forced shut-down in operations just on the eve of the fall harvest. Indeed, a number of my major customers have already lost faith in the concept of an independent barge industry and have set up their own river operations.

Third, I am concerned about our ability to raise the enormous capital required to operate our business. We have long since passed the days when the local bank could finance the acquisition of equipment and the large banks we have turned to have suffered losses along with us. If they lose confidence in us, the supply of capital would surely dry up and our business would inevitably wither.

I would not be here today if I felt that my experiences represented an isolated case. I wish that it did, but there are many others like me up and down the rivers. Many of them are neighbors—the residents of my home town—Greenville, Mississippi. For what happened to me is a personal example of what happened, and is happening, to my home town. The river industry has been a major factor in the economy of this town and its surrounding trade area for many years. In 1980, our industry provided nearly 10,000 jobs over 18 counties, and pumped nearly $90 million in payrolls into the local economy. Today, those figures have been cut in half, and the effect is rippling through the area, carrying fear and misfortune along with it.

Let me just give you a small example of what I mean. A few days ago, I was talking to a fellow in the automobile business in Greenville, and he told me that the depression in our industry was hurting his business badly. I do not pretend that this is a sophisticated scientific analysis, but when you talk to the people of Greenville, you cannot help but understand what our industry means to whole communities.

And so I appear before you on behalf of my fellow operators, friends, neighbors and city. I gave up hoping for a miracle cure last September, and I know that you cannot provide one from Washington. But, I think we have a right to expect understanding from Congress on the effect that your policies have on people like me. It would be unjust to place the blame for what happened to me on Washington, but I can honestly say that government policy played a significant part. If my appearance today helps you understand even a little better how you affect our industry, then I will consider it to have been time well-spent.

Senator DANFORTH. Thank you.

Gentlemen, what should we in the Government do that we are not doing, or what should we stop doing that we are doing? This is your chance to tell us what we are doing wrong or what we should be doing right.

Mr. LAMBERT. Well, in a general way, Mr. Chairman, I was struck by a comment recently by the ICC Chairman Reese Taylor that really I think says something about our transportation policy. In speaking in the Rayburn Building here on June 9 to the House Coal Caucus, Mr. Taylor said: "One clear intent of the Staggers Act is that railroads be assisted in achieving revenue adequacy."

If there was a similar policy in Government, in Congress, enunciated by the Congress, regarding revenue adequacy for our industry, I guess we would not be where we are today. But we feel like poor stepchildren after all the past legislation for one mode with very little for us. What we did get during that period of time was a user fee.

As I pointed out, when you lose $3 million after taxes and you have $500,000 of user fees, it is just one more cost you are trying to swallow. And of course the user fee goes up again this coming September.

There seems to be no national transportation policy with regards to all modes. I know one was enunciated and printed someplace back in the 1930's, but we just do not feel that there is any comprehensive national transportation policy.

Senator DANFORTH. What do you think the policy should be?

Mr. LAMBERT. One of evenhandedness and equity among the modes and one that attempts to achieve the best benefits of all of the modes, the inherent advantages of those modes, one that causes them to work together for the benefit of the shipper public in the public interest. I think the approaches to transportation by the Government have been programmatic rather than a comprehensive policy.

Senator DANFORTH. Do you have any suggestions?

Mr. LAMBERT. Again—well, at some point in time we need a 4R Act for the inland water system merely as a rescue device, I guess. But beyond that, some sort of an overall transportation plan that would create revenue adequacy for all modes.

I am not sure how that is done. I certainly do not have a piece of paper to hand you that tells you how to do that, Senator. But if it is rational for one mode it should be rational in the public interest for the others.

Senator DANFORTH. Mr. Donnelly.

Mr. DONNELLY. Mr. Chairman, I think Jack Lambert has expressed my views in many cases in what he has said, but I would like to add this: That I think as a long-term solution this whole problem of user fees and equity has to be dealt with.

We have for a long time tried to get the Army Corps of Engineers to make a study of its own operations, its own accounting, and determine how much of the benefits of river improvement were really attributable to the barge industry. We were generally unsuccessful in efforts to get them to do that.

Finally, we financed the study ourselves that was performed by the national accounting firm of Peat Marwick & Mitchell, and I think their study, the results of that study should be forthcoming soon. We are quite confident as barge operators that the results of the study will show that a great many benefits that will flow from improvements to the waterway system are not attributable to the barge industry, as many people in Congress would have it, that the benefits flow to many other users, many other beneficiaries: recreation, agriculture.

Senator DANFORTH. That goes to the user fee question, of course.

Mr. DONNELLY. Yes. And this of course brings us to equity among the modes, as to whether or not this should be the only mode that is saddled with a user fee, when there are other Government subsidies being given to other modes. That is the biggest long-term question I believe that must be dealt with.

Senator DANFORTH. Your view is that the user fee is very injurious to your form of transportation, and if we were to increase it, it would be even worse?

Mr. DONNELLY. It would be much worse, particularly in the isolation of not increasing some type of fee or some type of tax to other modes that receive a subsidy, because we are all competing for the same goods.

Senator DANFORTH. Other than the user fee issue, do you have anything else to suggest to us?

Mr. DONNELLY. I do not have in my own mind a good policy formulated as to how to deal with this overpopulation of barges brought about by the investment of people who were not in the barge industry before. But certainly it is a problem, and it may be by the time all of the testimony has been given by the people participating in these hearings we can come up with a coherent policy.

Senator DANFORTH. I do want to get to that in just a minute.

Mr. Baskin, do you have a response to the question what we should be doing or what we should stop doing in the Government?

Mr. BASKIN. One thing that comes to mind is the ratemaking practices among the modes. When we were in business in the Missouri River and you observed a movement of feed grain from Sioux

City to a feed manufacturer in North Carolina, you could move it all the way by rail or you could move it part way, say from Sioux City to a point like Chattanooga by barge and the remaining distance by rail. The distance involved for that rail movement would be just a fraction of the total move.

To me there is a danger in that short rail haul rate approaching the same cost as the entire movement by rail from Sioux City to the ultimate destination in North Carolina. The word "predatory" comes to mind. I see in this a very real threat for those who continue in this industry.

I have talked about our particular category. So we have loosened the reins through legislation such as the Staggers Act, and it seems to me some overview, some even-handed treatment of this matter for our mode, would be one thing that we could look at.

The second thing we need, regarding the oversupply of equipment that we have, is a stimulation of demand. Of course, this has already been said, but anything that can increase, for example, the movement of grains for export or coal for export, and utilizes equipment—we cannot make it go away—but anything that can be done to stimulate and expand trade, would be helpful.

Those are just two ideas. Thank you for the chance to express them.

Senator DANFORTH. Let met ask you about the oversupply of barges. What was the cause of that? How did Federal tax policy contribute to it? What went wrong, and when did it go wrong?

Mr. LAMBERT. Senator, I am not a CPA, but I think tax policies in general work toward giving professional people with incomes shelters for that income. And along about 1979 or 1980 barge and railcars were discovered as a tax shelter. They were simpler than apartment buildings and construction of shopping centers, et cetera. Somebody else could operate them and they did not require a lot of maintenance and so on. Theoretically, the dentist was never going to see his piece of property again.

So a lot of people got into arrangements which were created by investment banking groups where they were not intending to operate the equipment. They were not an operating company. They were just going to build it and push it out onto the market.

They did not have the comprehension that there was going to be a decrease in grain exports. But when the embargo occurred, we had compounded the problem. We were building barges at the rate of about 1,000 a year prior to 1979, and in 1980 and 1981 the barge-building programs were shooting up at a rate of 1,500 to 2,000 a year. And you could not shut that off. You could not stop the orders after the embargo occurred.

Many of the barges hit the water at the shipyards and have never moved.

Senator DANFORTH. Who operates those barges?

Mr. LAMBERT. Some of them, as I say, have never moved. They are not operating. Others have been charted out to operating companies eventually. Some of them were at costs far below their debt service obligations. But a barge sitting idle in a fleet or a mooring still has to—you still have to pay for its care and attention. You are paying somebody $25 a day——

Senator DANFORTH. Let me see if I can understand this. Do you own your own barges?

Mr. LAMBERT. Yes, sir, we own them or we have them on long-term leases.

Senator DANFORTH. But in addition to the barges that you own and operate in your company, a lot of investors were getting into buying barges and leasing them, correct?

Mr. LAMBERT. Yes, sir, that was their intent.

Senator DANFORTH. Who were they leasing them to?

Mr. LAMBERT. To barge lines or grain companies, or that is what they intended to do. And some of them did actually achieve that, until the embargo set in. But hundreds and hundreds were built after the embargo came about because the orders could not be stopped.

Senator DANFORTH. How does that affect you? Let us suppose a lawyer or a dentist or somebody decided 5 years ago to buy an interest in a barge for depreciation and so forth. How does that affect you, if that person cannot find a lessee?

Mr. LAMBERT. It stimulated the excess supply, and our barges are traded, literally, on the Merchants Exchange in St. Louis. Barge transportation is traded. It is a commodity just like corn or soybeans, and the excess supply of barges that is around has reduced the freight revenues to levels far below, not only below profits but below our variable costs.

And as Mr. Baskin said, those barges do not go away. They may be sitting in bayous in Louisiana, but a lot of those investor barges are there and they are a depressant on the market.

Senator DANFORTH. Are people still doing this? Are they still investing in barges?

Mr. LAMBERT. I have not seen it lately and I certainly hope they are not. But Mr. Renshaw, who will speak later for the shipyards, will tell you that there is hardly anything going on in the country's shipyards. So I doubt that that is going on any more.

Senator DANFORTH. What do we do about this? Once you create a barge, it is not biodegradable.

Mr. LAMBERT. It certainly is not. We either need to get more freight or we need to get rid of some barges.

Senator DANFORTH. What is the life expectancy of a barge?

Mr. LAMBERT. Too long, about 20, 25 years.

Senator DANFORTH. Twenty to twenty-five years?

Mr. LAMBERT. Yes, sir.

We have internally among us kicked around plans for a barge reserve program, a sort of reserve fleet sort of thing. Nothing definitive. We do not quite know how it would be done by the government, but something like putting your corn in reserve and padlocking it and getting a loan on it. We are not sure how to approach this and do it, but possibly we can, as we try to flesh out our ideas, we can talk to your staff about those ideas.

But we really do not have any specific program that we can hand to you that will put 3,000 or 4,000 barges in limbo, which is what we would like to do.

Senator DANFORTH. And again, I think all of you have commented on the user fee question. It is, as you know, a continuing issue.

This administration and a number of the people in Congress believe that it makes sense.

It is your theory that increasing user fees would be a disaster for you, is that correct?

Mr. DONNELLY. Yes, sir. I have so testified that I think it would be a disaster, and I think it would be also wrong if we were required to pay a greater share of the cost of the operations of those facilities if there were other beneficiaries that in fact enjoyed those facilities and not us in some cases.

There is no question but that we enjoy the benefits of some of those expenditures, but certainly not the high level that has been asked for by the administration.

Senator DANFORTH. Is there any way of quantifying how barge companies are doing now?

Mr. DONNELLY. Yes, sir. I quoted from a study in my testimony, which is right here, that Arthur Andersen Co. recently made, and it showed that 15 of the leading barge companies were making very good profits in 1980, and in 1981 and in 1982 the total shifted from—I believe the figure I quoted was $125 million in profits in 1980. That dropped to a $30 million loss in the aggregate in 1982.

I think that very soon we should have figures for the first quarter of 1983.

Senator DANFORTH. Do you not think the end of the recession—hopefully it is over for good—and the long-term grain deal with the Soviet Union will pick up the industry again?

Mr. DONNELLY. Mr. Chairman, I have heard that the recession perhaps ended at the end of the year, and I read my morning newspaper every day and I know about service sectors of the economy that have been improving. But I see no improvement in the barge industry. I think we are closely tied to smokestack America and to the prosperity of the farmer, and I do not believe those sectors of the economy have yet picked up.

Mr. LAMBERT. Mr. Chairman, if I may, again, the intended purchases by the Soviets prior to the embargo was 25 million metric tons of wheat and corn. Their purchases of this past year to date, this crop year, have been 6,200,000 metric tons, and the fleet was gearing up for that 25 million metric tons. So there has been quite a fall off in the grain trade.

While we are elated at the 5-year agreement that has recently been completed for the grain commodity movements on the river systems, the figures that are being talked about are a 9 million metric ton minimum for the Soviets, with the ability to go to 12 million metric tons. We pray that they do and that they will ask for even more, and get that approval. But that is a long ways from 25 million metric tons.

Senator DANFORTH. Gentlemen, thank you very much.

Next we have Colonel Haar and Professor Barloon.

STATEMENTS OF HERBERT HAAR, JR., ASSISTANT EXECUTIVE DIRECTOR, PORT OF NEW ORLEANS; AND MARVIN J. BARLOON, CARLTON PROFESSOR OF ECONOMICS, EMERITUS, CASE WESTERN RESERVE UNIVERSITY

Mr. HAAR. Mr. Chairman, I am Herbert Haar, assistant executive port director for planning and engineering for the Port of New Orleans.

Sir, in the interests of time, I would like to give some of the highlights of my testimony and have the whole statement included for the record, if I might.

Senator DANFORTH. Great. Thank you.

You do not even have to ask, Mr. Haar. We will automatically include the full statements of all witnesses.

Mr. HAAR. Thank you, sir.

In the last 234 miles of the Mississippi River there is located a vast regional oceangoing port complex that services the tremendous Mississippi River and navigable tributaries shallow-draft transportation system. It is in this area where the barge and oceangoing vessels come together to transform goods and services into export and import trade.

We at the Port of New Orleans are highly dependent upon the inland barge industry that services the port—as is that industry dependent upon the port to provide the indispensable linkage to foreign markets.

In a given year, over 109,000 barges pass through the port—moving raw materials and manufactured products to and from national and international marketplaces. This commercial movement is vital to the well-being of the Nation. The value of exports alone accounts for 17 to 20 percent of the Nation's total Gross National Product.

Now, the inland waterway traffic on the main channels and all tributaries of the Mississippi, Illinois, Missouri, and Ohio Rivers is approximately 363 million tons annually. This magnificent 14,500-mile Inland Waterways System services the foreign trade and domestic commerce of the mid-America hinterland, which accounts for 51 percent of the population; 49 percent of the purchasing power; 53 percent of the value-added manufacturing; and 50 percent of the employment of the United States.

It is no wonder that there has developed in the Lower Mississippi River region a vast deep-draft port complex stretching from Baton Rouge to New Orleans and on to the gulf—a 234-mile-long port complex that, in 1981, handled 380 million tons of waterborne cargo, foreign and domestic, excluding shallow-draft, through-traffic cargo.

I might mention that the biggest port in the world, Rotterdam, handled in the most recent year about 280 million tons, to give you some idea of the magnitude here.

Oceangoing commerce on the Mississippi River has grown from 84 million tons in 1970 to about 223 million tons in 1981, with the U.S. Army Corps of Engineers estimating that this figure will reach about 425 million tons by the year 2040.

The Port of New Orleans, itself, has become the No. 1 port in the United States in total waterborne commerce.

Perhaps we can look briefly at two of the major commodities that arrive at our dockside, principally by barges. These two are grain and coal.

During the last decade, world grain trade rose from 108 million metric tons to 199 million metric tons. The United States' share of this trade was 137.1 million tons in 1982, with 64.5 million tons, or approximately 49 percent of the Nation's grain export being handled by the 11 modern export grain elevators located between Baton Rouge and the Gulf of Mexico. Conservative projections by the grain exporters suggest that by the year 2000, this grain movement from the lower Mississippi Valley region alone will represent 90 million tons annually.

The nationwide $39 billion worth of agricultural commodities and products exported during the fiscal year ending September 30, 1982, is a tribute to the energy, sales ability and traditional trading spirit of the American agricultural community.

Exports provide markets for 60 percent of our annual wheat crop; half of the rice and soybeans; and more than one-third of the cotton and corn we produce.

About one-fifth of 1982's farm cash receipts resulted from agricultural exports. Production from nearly one out of every three harvested acres is sold abroad.

Every additional billion dollars realized from an export sale generates 50,000 additional jobs here at home.

Clearly, our economy has benefited in terms of the foreign exchange earnings and the creation of jobs. In fiscal year 1982, the dollar value of agricultural exports amounted approximately to 33 percent of this country's exports. Further, agricultural commerce had a favorable balance of trade of $21 billion, whereas the country had a deficit balance of $35 billion in total trade. We, the port and barge industry, as well as the American agricultural export enterprise, can look forward to continuing opportunities for expanding world trade and bringing impressive, increased benefits to the Nation as a whole.

It is estimated that the United States is providing about 36 percent of worldwide waterborne coal shipments. In fact, coal alone now accounts for approximately 10 percent of all tonnage passing through U.S. seaports. From this perspective, it can easily be seen why coal is becoming one of the driving forces behind port expansion and port development in this country.

However, the coal export market has changed dramatically in the last few years, and while the United States is still the largest exporter, we have a number of competitors who are developing their coal reserves for the export market only. We feel that there are great benefits to the United States to be derived from an expanded international coal and agribusiness. We also view the Mississippi River as the jugular vein of this international trade.

The inland waterway's linkage supports a seaport industry nationwide that has tremendous impact on our national economy. It is more than 1 million jobs, $66 billion in gross sales within the Nation, $23 billion in personal income, $7,900 million in business income, $5 million in State and local taxes, $10 billion in Federal tax and Customs' revenues.

To this date, the Federal navigation function has worked well in fueling private and public investment, increasing national revenues, aiding international as well as domestic commerce, and providing nationwide benefits such that there is a most effective and convincing argument for continuing the Federal shallow-draft navigation program through the general fund and the deep-draft port improvements and maintenance through apportioning of Customs revenues.

We can ill-afford policy changes such as additional cost sharing and user charges, that will more than likely impact on the ultimate cost and, hence, the competitiveness of our marketable goods.

The United States, a nation with over 240 million people, has the same share, 14 percent, of the world trade markets as West Germany, a nation with only a 64 million population. Obviously, we must become more competitive and not less competitive in world markets. I feel the only conclusion we can make, after thoroughly reviewing the potential impact of user charges on our national economy and balance of payments will be that the United States can ill-afford to initiate a user charge program with rates so high that the United States' competitive position in world markets will be severely jeopardized.

Mr. Chairman, in conclusion, if I may, I would like to put in the record with my statement a copy of a letter I have from the commission for economic development of the State of Illinois which transmits to me a copy of the concurrent resolution that that legislature will pass in an upcoming session later this year. It is expected to pass unanimously, putting that body on record against waterway user charges as against the best interests of that State's economy.

Thank you, sir.

[The statement and letter follows:]

STATEMENT OF HERBERT R. HARR, JR., ASSISTANT EXECUTIVE PORT DIRECTOR, BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS

Mr. Chairman and Members of the Committee, I am Herbert R. Haar, Jr., Assistant Executive Port Director of the Port of New Orleans. I wish to thank you on behalf of the Board of Commissioners of the Port of New Orleans for extending us the opportunity to appear before you and to present this statement regarding the barge industry's impact on the Port of New Orleans, the combined importance of the barge industry and the Port of New Orleans to international trade, and some thoughts of what we expect the future may have in store for the port industry and foreign trade, in general. Finally, I will offer several observations regarding Cost Sharing the Cost Recovery Concepts.

As you might well expect with the Port of New Orleans located at the foot of the funnel, the business end so to speak, of one of the worlds largest inland waterways systems, we hold dear to us the industries that helped to develop and sustain our great magnificent waterway system. Since barge traffic is the primary feeder transporting system to our port—incidentally, the port that is recognized statistically as the number one port in the nation in total waterborne commerce—we are vitally interested in those matters which impact on the barge industry. For such impacts eventually are transferred both economically and operationally to deep-draft operations, foreign and domestic trade, perhaps reflected in payment imbalances, costs of goods, and, ultimately, are reflected in consumer costs.

We accept as a known fact that as commerce expanded in the United States, so did the barge inland waterway transportation system develop to meet the continuing challenges of increased production, expanding markets, and need for increasing transportation efficiencies. The very growth of the Port of New Orleans is tied explicably to the growth of the barge industry. As might be expected, today the Port of

New Orleans is the center of the Nation's barge activity. More than 109,000 barges pass through the port annually.

Let us review briefly what the Port has contributed to the nation, to the barge industry, and likewise, denote how the barge industry has contributed to the Port's and Nation's well-being.

The major milestone in the growth of New Orleans—and of international trade of the entire Mississippi River Valley—occurred in the latter half of the 1870's when James B. Eads succeeded in maintaining a deep channel through the Mississippi River Delta by means of constructing parallel jetties in the Southwest Pass. As improvements were made, internal commerce increased and international trade via the Port of New Orleans increased. Growth of Commerce on the Mississippi River and Tributaries System has been such that tonnages double every 10 to 12 years.

Now, the inland waterway traffic on the main channels and all tributaries of the Mississippi, Illinois, Missouri, and Ohio Rivers is approximately 363 million tons annually. This magnificent 14,500 mile inland waterway system services the foreign trade and domestic commerce of the Mid-America hinterland, which accounts for 51 percent of the population; 49 percent of the purchasing power; 53 percent of the value added manufacturing; and 50 percent of the employment of the United States.

Is is no wonder that there has developed in the Lower Mississippi River region a vast deep-draft port complex stretching from Baton Rouge to New Orleans and on to the Gulf—a 234-mile-long port complex that, in 1981 handled 380 million tons of waterborne cargo, foreign and domestic, excluding shallow-draft, through-traffic cargo.

Oceangoing commerce on the Mississippi River has grown from 84 million tons in 1970 to about 223 million tons in 1981, with the U.S. Army Corps of Engineers estimating that this figure will reach about 235 million tons by year 2000 and about 425 million tons by year 2040.

The Port of New Orleans, itself, has become the No. 1 port in the United States in total waterbone commerce, foreign and domestic, deep and shallow-draft, ocean and coastwise commercial tonnage at 189 million tons in 1981; and according to the Department of Commerce, the Port retained its position as one of the nation's major ports in foreign waterborne commerce with 47.2 million tons in 1982.

Perhaps we can look briefly at two of the major commodities that arrive at our dockside, principally by barges. These two are grain and coal.

During the last decade, world grain trade rose from 108 million metric tons to 199 million metric tons. The United States share of this trade was 137.1 million tons in 1982 with 64.5 million tons, or approximately 49 percent of the nation's grain export being handled by the eleven modern export grain elevators located between Baton Rouge and the Gulf of Mexico. Conservative projections by the grain exporters suggest that by the year 2000, this grain movement from the Lower Mississippi Valley Region alone will represent 90 million tons annually.

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Exports provide markets for 60 percent of the our annual wheat crop; half of the rice and soybeans; and more than one-third of the cotton and corn we produce.

About one-fifth of 1982 farm cash receipts resulted from agricultural exports. Production from nearly one out of every three harvested acres is sold abroad.

The vast network of support and service companies and organizations that link American farmers to consumers beyond our borders benefits from exports. Businesses that include agricultural machinery and chemicals manufacturers; the packaging and container industries; the transportation system; international banks; forwarders; brokers; and the small army of marketeers, promotion specialists, and commercial representatives who travel the world probing for new or expanding markets for American farm products, all benefit from exports. Every additional billion dollars realized from an export sale generates 50,000 additional jobs here at home.

Clearly, our economy has benefited in terms of foreign exchange earnings and the creation of jobs. In fiscal year 1982, the dollar value of agricultural exports amounted approximately to 33 percent of this country's exports. Further, agriculture commerce had a favorable balance of trade of $21 billion whereas the country had a deficit balance of $35 billion in total trade. We, the Port and barge industry, as well as the American agricultural export enterprise, can look forward to continuing opportunities for expanding world trade and bringing impressive, increased benefits to the nation as a whole.

With regard to the world coal trade, the United States has continued its major share of that market. In 1977 the United States exported 54 million tons of coal, nearly all of which was metal-lurgical coal. In 1980, U.S. steam coal exports rose to 27 million tons in response to the worldwide surge in steam coal demand. In 1982,

U.S. steam coal exports increased to 41 million tons. It is estimated that the United States is providing about 36 percent of worldwide waterborne coal shipments. In fact, coal alone now accounts for approximately ten percent of all tonnage passing through U.S. seaports. From this perspective, it can easily be seen why coal is becoming one of the driving forces behind port expansion and port development in this country.

Prior to 1980, most of the coal exported from the Lower Mississippi River was metallurgical coal. Annual volumes never exceeded 2 million tons. In 1980, exports from the Mississippi River grew to 4 million tons, about half of which was steam coal. In 1981, the Mississippi River coal exports reached 13.9 million tons.

Despite a slight decline in U.S. coal exports in 1982 due to world market conditions, all recent coal export projections continue to indicate that this growth will continue for the long term along an ascending curve. However, the coal export market has changed dramatically in the last few years, and while the United States is still the largest exporter, we have a number of competitors who are developing their coal reserves for the export market only. Australia and South Africa have come into the market in these last few years and have no place other than the export market to go with their coals. Poland and Great Britain are also viable competitors now in the world market, as is Canada. China and Columbia will also be competitors in the export market in the not too distant future.

We feel that there are great benefits to the United States to be derived from an expanded international coal and agribusiness. We also view the Mississippi River as the jugular vein of this international trade. From where we sit, the future looks very bright and promising indeed. Progress in transshipment is foreseen. A threehold increase in commerce is foreseen. New economies in transportation are foreseen and expanded markets are foreseen as a result of savings in transportation costs. We at the Port of New Orleans are so confident of this future growth in commerce that we are investing public funds at the rate of approximately $15 million annually on a long-term $400 million dollar port development plan.

We at the Port of New Orleans are indeed optimistic about future growth of commerce. We are aware of the benefits of the low-cost energy-efficient movement of goods by barge. We are aware of past progress in transshipment technology, and aware that new developments will be forthcoming. In the past we have seen progressive development in the work horses of the inland waterway system, namely towboats and tugboats. Over the years towboats have increased in size and horsepower. Barge lines are now handling larger tows with increased efficiency. We have seen progress in containerization.

Cargoes can now be moved with greater speed at lower labor cost. Efficient transshipment terminals on the Mississippi River in areas such as Greenville, Mississippi; Memphis, Tennessee; Baton Rouge, Louisiana; and New Orleans, Louisiana have been constructed. More terminals are planned. On the Mississippi River and tributary system, there are 60 inland ports and 1100 marine terminals. Their basic function is to provide the facilities and services required to transfer cargo and passengers efficiently beween vessel and shore.

Inland waterway transportation has grown phenomenally in this country since the end of World War II. In 1980, barges and towboats moved an estimated 62 percent of the total tonnage of the Nation's domestic waterborne traffic, as well as large and growing quantities of commodities flowing in world trade. A gallon of fuel will move a ton of freight by air 5 miles, by truck 53 miles, by rail 200 miles and by barge 515 miles. There is one other aspect of transshipment progress which is resulting in expanded markets for agribusiness—vessel size. The size of vessels which carry bulk commodities in international trade has increased dramatically over the years. The economy of scale is very important in the international movement of bulk commodities. By looking at the oceangoing bulk carriers now on order worldwide, we conclude that this trend toward larger ship sizes will continue far into the future.

The maintenance and continued growth of the Mississippi River Basin waterway system, which represents a unique competitive advantage to this country's agricultural and industrial heartland, is essential if we are to capture our full potential of world trade, and stimulate a rapid economic recovery. It therefore becomes critical, being in the nation's interest, that cost-sharing/cost-recovery programs as are currently being proposed through various user charge applications be thoroughly examined for efficiency, equity, and actual cost/benefits received. Any additional economic burdens on our already financially distressed waterway industries may eliminate any chance of reaping the potentially vast benefits we stand to gain.

Philosophically, we at the Port of New Orleans are opposed to imposition of any user charges or of cost-sharing schemes being imposed on the inland waterways

system and its terminus deep-draft ports system. We look at such schemes as breaking the trust between the Federal government and the people, all of whom in one way or another share in the national benefits derived from our navigable waterways.

With respect to the use of such waters, the intentions of Congress even before ratification of the Constitution were clearly stated in the Northwest Ordinance: "The navigable waters leading into the Mississippi and the St. Lawrence and the carrying places between the same, shall be common highways and forever free * * * without any tax, import or duty therefore."

The Rivers and Harbors Act of 1909 reaffirmed this concept and policy in that: "No tolls or operating charges whatever shall be levied or collected on any velles, dredge or other craft for passing through any lock, canal or canalized river. . . ."

This policy—this trust—brought forth the best in private development, private investment, in and along our waterways. These industrial developments and plant improvements have had far greater beneficial returns in jobs, tax revenues, international commerce, Gross National Product, than the mere Federal expenditures outlay that provided the initially barren highway. One must remember, a channel in itself does not a Port make. We already have cost sharing when we tally up those costs even now required of the local participating sponsors, followed by private investors. These, but to name a few, are funds for easements, disposal areas, rights-of-way, roads, utilities, dikes, landslide facilities—all required to make the project an operating facility—and so on and on goes the list.

With regard to the United States Seaport Industry, an examination of its structure reveals:

An industry that is overwhelmingly the product of local and private initiative and investment;

1,456 marine terminals including 2,939 ship berthing facilities. Approximately 50 percent are publicly owned by state and local government entities and 50 percent are privately owned;

Actual cash value and estimated replacement cost of all marine facilities in the United States is $40.4 billion and $54 billion respectively (in 1977 dollars);

Total facility investment by public port authorities of $4.86 billion, in the period 1946–78, including $1.6 billion for 1973–78; and

Projected port capital expenditures for 1980–90 will be excess of $5 billion.

To this date, the Federal navigation function has worked well in fueling private and public investment, increasing national revenues, aiding international as well as domestic commerce and providing nationwide benefits, such that there is a most effective and convincing argument for continuing the Federal shallow-draft navigation program through the general fund and the deep-draft port improvements and maintenance through apportioning of Customs revenues.

I would like to take a moment to share with you the results of a User Charge analysis conducted by a foreign nation that trades with the United States and one that you might say is in competition with the United States in the world marketplace.

This most interesting user charge analysis was conducted in the U.S.S.R. in 1970 by the Moscow Institute of Water Transport Economics and Operations, under the direction of Dr. Anatoly Hochstein, who now serves as Director of the Ports and Waterways Group with the firm of Louis Berger International here in the United States and soon will become Director of the Ports and Waterways Institute of the Center for Wetland Resources, Louisiana State University. The objectives of the study were to analyze user charges as the economic stimulus towards promoting:

—Optimization (rationalization) of waterway investment and operational expenses;

—Rationalization of traffic allocation between competing modes of transportation (this type of traffic does exist in the U.S.S.R.); and, finally,

—To provide better criteria to measure the performance of government managers involved in water transportation.

The conclusion of this study, which was accepted by the Russian government, as explained to me by Dr. Hochstein, was that user charges should not be imposed. The rationale for this conclusion was that:

1. Multi-purpose use of inland waterways in the U.S.S.R., as in the United States, makes the development of a user fee system very complicated. The major users include hydropower, passenger/recreational boating, water supply and irrigation. Numerous high-lift hydropower dams on inland waterways make it very uncertain who benefits from navigation locks, which must be built as a result of new dams intended to generate power, and which improve navigation, if at all, only as a side effect.

2. Other modes of transportation, primarily the railways, have part of the capital and operational investments provided without reflecting it in transportation costs and profits. Therefore, user charges, if imposed, would unfairly effect the position of water transport. Of course, this statement was supported by calculations of which expense items are included and excluded in costs per ton kilometer for alternate modes of transportation.

3. Due to the complexity of the charges, if to make it fair and economically stimulative, it would be necessary to develop a fiscal (collection and administration) system the cost of which would exceed any potential savings.

As we can see, the problems seen in the U.S.S.R. are quite similar to what we are facing now in the United States. I propose that we learn from this example, and the trends that are developing internationally, before we approach the question of implementing excessive user charges here at home.

We must not fail to consider the tremendous economic impact of the U.S. Seaport Industry on our national economy. Its contribution to the economy in 1980 accounted for: more than one million jobs; $66 billion in gross sales within the nation; $35 billion of Gross National Product; $23 billion in personal income; $7.9 billion in business income; $5.0 billion in state and local taxes; and $10 billion in federal tax and customs revenues .

The value of foreign trade, incidentally, equates to more than 20 percent of the value of the U.S. Gross National Product.

Finally, the United States, a nation with over 240 million people, has the same share, 14 percent, of the world trade markets as West Germany, a nation with only a 64 million population. Obviously, we must become more competitive and not less competitive in world markets.

I feel the only conclusion we can make after thoroughly reviewing the potential impact of user charges on our national economy and balance of payments will be that the United States can ill afford to initiate a user charge program with rates so high that the United States' competitive position in world markets will be severely jeopardized.

ILLINOIS COMMISSION FOR ECONOMIC DEVELOPMENT,
Springfield, Ill., July 28, 1983.

Col. HERBERT HAAR, Jr.,
Assistant Executive Director,
Port of New Orleans, New Orleans, La.

DEAR COLONEL HAAR: As we discussed in our telephone conversation this morning, I am enclosing a copy of House Resolution No. 288, which outlines our position on waterway user fees, and which was sponsored in the Illinois House of Representatives by Representative James F. Rea.

The resolution was put on the House calendar, but unfortunately in the heat and fire of this year's legislative session, was never called from the Speaker's desk for concurrence by members of the House and consequent passage to the Illinois Senate for concurrence by that body. There is no doubt concurrence from both bodies would have been unanimous had it been able to be heard.

It is still pending on the House calendar, and hopefully during October's veto session, we will be able to take the necessary action.

Sincerely,

JAMES A. ANDERSON, *Executive Director.*

Att: House Resolution No. 288.

HOUSE RESOLUTION 288

Whereas, The present administration in Washington, D.C. has proposed a series of additional harbor and waterway user fees that would directly impact on the flow of commerce, such commerce being a vital part of the economy of the State of Illinois, and through export, vital to the economy of the United States and to its international balance of payment posture; and

Whereas, The administration's cost recovery proposals include: user charges to recover federal expenditures associated with the nation's navigation system, shallow drafts and deep drafts, user charges to recover certain expenses related to Coast Guard services, commercial vessels and cargo handling facilities, and user fees to recover a portion of costs for Customs' services; and

Whereas, For several years there has been no congressional authorization of channel and harbor improvements and the funding of projects already authorized has

dwindled causing our channels and harbors to become antiquated and no longer able to meet the demands of international trade as manifested by deep draft foreign port development and the use of larger, more efficient vessels, with such allowed degradation having already contributed to an export decline in 1982 and seriously damaging prospects for increased exports; and

Whereas, The flow of agricultural products and coal represents a significant factor of business for the State of Illinois and the United States where during 1982, U.S. Agricultural exports were valued at 43.8 billion dollars and U.S. Coal exports were valued at almost 6 billion dollars; and

Whereas, U.S. farm products compete in international trade on the basis of very small margins and coal competes at a price disadvantage, with such commodities as sensitive to the cumulative impact of the sort of additional users fees proposed by the administration as they are to the lack of access to the larger, more efficient ocean carriers; and

Whereas, The position of the United States port and waterway industry is that for any cost recovery program to be credible, the cumulative impact of the proposed user fees must be carefully documented and analyzed, particularly as they would impact on primary United States export commodities; therefore, be it

Resolved, by the House of Representatives of the Eighty-Third General Assembly of the State of Illinois, that we strongly urge the Illinois Congressional Delegation to oppose and actively campaign against additional waterway user charges which have been formulated without appropriate consideration of their impact on the national and regional economics of the United States; and that we further urge the Illinois Congressional Delegation to support and campaign for those congressional efforts which will provide for an accelerated program for improving the nation's channels and harbors; and be it further

Resolved, That copies of this resolution be presented to the Speaker of the United States House of Representatives, the President of the United States Senate and each member of the Illinois Congressional Delegation.

Senator DANFORTH. Thank you.

Professor Barloon.

Mr. BARLOON. Good morning, Mr. Chairman.

My name is Marvin J. Barloon. I am professor of economics, emeritus, at Case Western Reserve University.

Mr. Chairman, I have submitted a prepared statement for the record. May I take a little time to make some comments summarizing some of the points, and also do something by way of observation?

Senator DANFORTH. Sure.

Mr. BARLOON. The inland waterways system of the country now is somewhat in the doghouse. You have heard testimony this morning from the carriers as to their very serious plight. The National Waterways Study released this year, as you probably know, presents a program to be carried through to early in the 21st century, calling for the expenditure of about $8,400,000,000 to contend with the extremely deteriorated and obsolete condition of many of the navigation structures.

The Robert R. Nathan report for the Gallipolis project on the Ohio River—I beg your pardon. It was not the Nathan report, it was the Corps of Engineers, Huntington District, projects that in the absence of enlarged capacity at Gallipolis in 1990, over 23 percent of the cargo will be eliminated from the movement.

So the waterways industry is afflicted by deterioration of many of the navigation works.

And finally, you have proposals for the imposition of high cost recovery user charges at the rate of 70 percent of Federal outlays, something of that kind. What I would like to emphasize is that this is not a question of one category of carriers against another, as such; but it is rather a question of the welfare of the shipping and

receiving industries and agricultural regions. This is the fundamental question.

We face a problem in connection with waterway transportation, I think, Mr. Chairman, similar to that of the bankrupt Northeastern railroads a few years ago when we could not let those railroads become totally bankrupt or semi-inoperative because service conditions were becoming so bad that the entire economy of the Northeastern United States and other parts of the country interchanging freight with this region was very seriously damaged. So something had to be done, and now we get the emerging improvement—very substantial improvement—in the service offered by the Conrail system.

I think that we face a danger similar to that in our waterway transportation system of serious damage to shipping and receiving activities. In my statement I indicate something of what these are.

With regard to regions affected, I think the major regions dependent on transportation by water are the Appalachian region, the Farm Belt region extending all the way from Ohio west into Kansas and Nebraska, the central south from, let's say, St. Louis to the gulf, the gulf coast all the way from St. Marks, Fla. to the Mexican border, and the Pacific Northwest. These are the principal regions affected.

Now just to pick a few illustrations, and I do not want to go into too many statistics and take up too much time, but the Pittsburgh district steel industry produces about 17 percent of all the steel in the United States. This district is almost totally dependent for its coal supply on carriage on the Ohio and Monongahela Rivers. Without that low-cost delivery of coal as well as of other materials, including fluxing stone, ferroalloys, fuel oil, and ferrous scrap, the industry would hardly be a survivable industry. It is in bad shape anyhow.

The jobs provided in the Pittsburgh district steel industry in 1981 are estimated at 65,700 jobs with payrolls of about $2 billion. So you have there a very large volume of employment and income dependent upon the transportation of these fuels and supplies on these rivers.

Continuing attention to the steel industry, there are four districts that ship large volumes of steel by water on the Ohio, Illinois, and Mississippi Rivers—the Pittsburgh and Cincinnati districts and the Chicago and St. Louis districts. The steel they shipped in 1981 provided jobs for 16,600 workers just to produce that steel shipped by water, representing payrolls of about $500 million in the steel shipped by water.

The steel that was shipped by water consumed a lot of iron ore in its manufacturing, bestowing benefits on the States of Minnesota and Michigan, which I estimate to be about $91 million in the sale of iron ore in Michigan and Minnesota—just for the steel shipped on the inland rivers in 1981.

The railroads that haul the iron ore from the mines to Duluth-Superior, the upper lake ports, and from Lake Erie down to the Pittsburgh district and into the Cincinnati area had earnings of about $35 million just carrying the iron ore that moves the steel on the rivers in that 1 year.

This illustrates to you, Mr. Chairman, I think, the involvement of this particular industry, steel, and the various regions in the inland waterway movements.

Very briefly, let me sum up some of the other observations which are included in my prepared statement. The coal moved on the Ohio River and its tributaries provides jobs for about 42,000 coal miners, and payrolls of about $646 million at 1981 levels. Chemicals carried on the Ohio Basin provide jobs for about 21,000 workers, representing payrolls of about $329 million. The farm value of grains and soybeans carried on the Mississippi River in 1981 was about $6,900 million.

So, Mr. Chairman, what I want to emphasize in general is the very substantial involvement of the shipping and receiving communities in the health of the water carrier industry in much the same sense as the involvement of the shipping and receiving industries in the health of the bankrupt Northeastern railroads a few years ago.

[The statement follows:]

STATEMENT OF MARVIN J. BARLOON, CARLTON PROFESSOR OF ECONOMICS, EMERITUS, CASE WESTERN RESERVE UNIVERSITY, CLEVELAND, OHIO

Mr. Chairman and Members of the Subcommittee: My name is Marvin J. Barloon. I am Carlton Professor of Economics, Emeritus, at Case Western Reserve University in Cleveland, Ohio, where I have been in charge of research and instruction in the economics of transportation for many years. In this capacity, I have supervised the preparation of doctoral dissertations, presented research papers before meetings of learned societies, and published numerous articles in professional journals. I am the author of the book entitled "U.S. Waterways Productivity", published in 1983 by The National Waterways Foundation.

I have prepared studies on transportation development for state governments and have appeared on numerous occasions before committees of the United States Senate and House of Representatives, in addition to hearings of the Interstate Commerce Commission and other government agencies. I have served as consultant on transportation economics to various civic groups, trade associations, and private business firms. I am a member of the American Economic Association, the American Transportation Research Forum, and other professional societies.

I have been asked to present this statement today on the importance of shallow-draft inland waterway transportation in the United States to particular industries and regions of the country. This category of carriage refers to freight movements on the inland and intracoastal waterways exclusive of the Great Lakes and the ocean harbors. So identified, the inland waterways in 1981 carried 4.5 times as much tonnage in domestic commerce as the Great Lakes and 60 percent more than the ocean harbors.

First, permit me to describe briefly the geographical distribution of the inland waterway system and the special features of this mode which underlie its distinctive role in the national economy. Then, to clarify in greater detail the bearing of the inland waterways on particular industries and regions, I shall offer some analysis of principal areas of service, namely, the steel industry, the chemicals industry, agriculture, bituminous coal and associated electric power, and, finally, the supply of petroleum products.

GEOGRAPHICAL DISTRIBUTION OF THE INLAND WATERWAY SYSTEM

About 95 percent of all the ton-miles of freight carried on the U.S. inland waterway system moves on the integrated Mississippi River-Gulf Intracoastal System. Geographically, this system is shaped somewhat like a giant hour glass. In the north, the tributaries of the Mississippi provide direct interconnections between Sioux City, Iowa, on the west, the Twin Cities in the north, Chicago to the northeast, Pittsburgh to the east, Knoxville, Tenn., to the southeast, and all waterside points in between.

These tributaries converge in the St. Louis area to form the central artery of the Lower Mississippi, connecting with the Gulf Coast waterways in Louisiana and di-

verging again via the Gulf Intracoastal Waterway and its connections to Birmingham, Ala., and St. Marks, Fla., in the east and, in the southwest, via the Houston area, to the Mexican border.

The Tennessee-Tombigbee connection, now approaching completion, will add routing flexibility to the Mississippi trunk line between these extensive northern and southern regions. The Arkansas River ties Tulsa, Oklahoma, and points in Arkansas into the system. Another waterway of substantial importance is the Columbia River. Lesser, but significant, tonnages are carried on other Pacific and Atlantic coastal waterways.

LOW-COST, HIGH-TONNAGE SHIPMENTS AND SMALL SHIPPERS

A central function of waterway transportation is the linkage of our major centers of population and industry with the Nation's base of natural resources. Most of the waterborne freight consists of products of the extractive industries, either in raw form or after initial processing. The cost of transportation by water typically runs about one-quarter to one-half of that by rail. This applies, however, principally to water-adapted freight movements, that is, to high-tonnage shipments not requiring precise delivery schedules.

For example, in 1981, the railroad rate on steel plate from Pittsburgh to Cincinnati was $31.40 per net ton; the barge rate via the Ohio River only $7.61. However, the rail rate applied to shipments of only 60 tons. The waterway rate was quoted for minimum shipment of 3,150 tons. This comparison is fairly typical. On certain other water-competitive movements, railroads quote unit train or multiple-car rates on shipments of some 4,000 to 10,000 tons at levels higher than those via the waterways by smaller margins than in this illustration.

Lest it be inferred that waterway transportation is an advantage mainly to big shippers, I hasten to add that the contrary is often the case. For example, in 1981, gasoline, fuel oil, and other petroleum products constituted 21.3 percent of the total inland waterway tonnage. The principal alternative mode of transport is the pipeline. Small distributors and marketers, however, often lack the capital for pipeline participation. River barging at a pipeline-competitive cost is their only salvation. Tank barges on the rivers are sometimes referred to as "the poor man's pipeline".

Again, small country elevators in Iowa, Illinois, and other Corn Belt states, shipping corn and soybeans to the Gulf for export, can choose between all-rail shipment or truck-barge and rail-barge shipment via the Mississippi. The competitive all-rail rates, however, generally require shipment of 50 to 75 rail carloads at a time. Many elevators are too small to originate such big shipments. As an alternative, they ship either truckloads or 3-car to 5-car rail loads to barging terminals on the Mississippi and thence to New Orleans at an overall cost about the same as the 75-car all-rail charge. The survival of the small elevator is thus reinforced by river barging.

PRINCIPAL REGIONS SERVED

In view of the critical issues now confronting the Senate as to expedited modernization of the waterways system and its financing, your Committee may be especially interested in the regional involvement in this commerce. From the preceding description, it will be noted that the inland waterway system serves principally such regions as the Appalachian area, the middle western Farm Belt, the Central South, the Gulf Coast, and the Pacific Northwest. Close to 1,000 miles of the system interlace the Appalachian area, including both Pittsburgh and Birmingham. A connecting 3,000 miles thread through the Middle West, from Ohio all the way to Nebraska and South Dakota. The river distance through the Central South from St. Louis to New Orleans is about 1,200 miles, and, via the Gulf Intracoastal Waterway from Florida to Corpus Christi, the distance is another 1,000 miles. Numerous waterway connections of lesser traffic density add greatly to these mileages.

SUN BELT–FROST BELT RELATIONSHIP

The waterways are a salutary restraint to intersectional dissension within the country. National policy in recent years has been much concerned with development rivalry between the Sun Belt and the Frost Belt. The extensive waterway connections between these two regions involves them in an interdependence, a mutuality of interest, and a common destiny. Coal from Appalachia provides electric energy on the Gulf Coast; petrochemicals, gasoline, and fuel oil from the Southwest sustain industry and jobs in the northern states; waterborne steel from Pittsburgh and Chicago contends with steel imports on the Gulf Coast; and farm crops from

Iowa, Illinois, and other northern states, exported via the Gulf, generate commercial and financial activity in the New Orleans area. Examples could be multiplied.

A study by the Army Corps of Engineers with respect to the proposed modernization of the Gallipolis navigation works on the Ohio River between Ohio and West Virginia identified 19 states originating and terminating freight shipments via this one Appalachian lockage site. Substantial tonnages served both Texas and Pennsylvania, West Virginia and Louisiana, Illinois, Ohio, and Tennessee, and numerous other states remote from each other, all via Gallipolis. People are not inclined to resent distant industrial development when it provides them with growing markets and supplies of fuels and materials at low cost, important to their own livelihood.

THE STEEL INDUSTRY

Turning, now, to the importance of inland waterway transportation to particular industries and regions of the country, the mode is of critical importance to large sectors of the Nation's steel industry. This is conspicuously true of the Pittsburgh District, embracing not only western Pennsylvania, but also such points as Steubenville, Ohio, and Weirton and Wheeling, W.Va. In comparison with lakeside and tidewater locations, the district is handicapped as to low-cost receipt of iron ore and concentrates. This disadvantage is substantially offset by waterborne receipt of virtually 100 percent of the district's coal requirements, in addition to other important materials and supplies.

In his address before the Tri-State Waterways Conference in Pittsburgh in 1977, Mr. Thomas C. Graham, President of Jones & Laughlin Steel Corporation, stated: "Because our rivers provide low-cost transportation between the coal mines and the coal consumers, our local steel mills pay about 15 percent less for coal than steel mills in the Chicago area * * * * It would be virtually impossible to build sufficient railroad off-loading facilities to handle this tonnage. There's simply not enough open space in our mills."

In addition to coal, the Pittsburgh District relies on its waterways for substantial tonnages of ferrous scrap, fluxing stone, fuel oil, and chemicals. The steel industry is a major consumer of electricity and, in the Pittsburgh District, this energy is generated principally from waterborne coal. The industry also ships by water various by-products and large quantities of finished steel.

Affected Employment and Incomes.—It is clear from these observations that waterway transportation is supportive of jobs and incomes in the Pittsburgh District on a very large scale. In 1981, the district produced 16.8 percent of the Nation's raw steel and, at the reported output per worker nationwide, the district's direct employment in steel production may be estimated at about 65,700 persons with a payroll of approximately $2 billion.

Employment and incomes indirectly generated by the steel industry must be added. The industry's coal consumption, for example, provides thousands of jobs in the Appalachian mining regions. To this may be added such purchases as equipment servicing, fluxing stone, rail and trucking services, chemicals, ferroalloys, and an innumerable variety of other purchases. In the Pittsburgh District, in 1981, such purchases amounted to close to $6 billion, much within the region and a major element of Appalachian employment and income.

Shipment of Steel Products.—In the shipment of steel products, the American steel industry is deeply involved in the program for waterway modernization and in the question of user charges. The industry ships large quantities of steel from the Chicago, St. Louis, Pittsburgh, and Cincinnati Districts into the Lower Mississippi Valley and Gulf Coast markets. These areas are flooded with steel imports. In 1981, 8.2 million tons of foreign steel were unloaded in Gulf Coast customs districts, about 39.3 percent of the national total.

Wateway shipment is important in meeting this competition. In 1981, the rail rate on steel plate from Homestead, Pennsylvania, to Galveston was $62.40 per ton; the waterway rate only $21.47. This differential, of course is associated with much larger minimum shipments by water. The waterborne movement of domestic steel to the Lower Mississippi Valley and the Gulf Coast in 1981 amounted to over 2 million tons, much of it high-valued pipe and tubing.

Access of the northern steel mills to markets in the Lower Mississippi Valley and on the Gulf Coast is being progressively impaired by congestion in the antiquated navigation works on the Illinois, Ohio, and Middle Mississippi Rivers. Downstream from St. Louis, however, the Mississippi is an open river and no corresponding congestion exists. Therefore, imported steel moving upriver from the Gulf to markets in such states as Mississippi, Arkansas, Tennessee, and Missouri is free from this handicap.

Differential Impact of Segmented User Charges.—Proposed cost-recovery waterway user charges would fall more heavily on the northern rivers, particularly if such charges were imposed differentially by waterway segments. The Illinois, the Middle Mississippi, the Ohio and its tributaries are canalized rivers. Therefore, in contrast to the open waters of the Lower Mississippi, the user charges per ton-mile on the downbound domestic steel would be significantly higher than those on the imports moving upstream from the Gulf as far north as St. Louis.

Employment Provided by Waterborne Steel.—Total shipments of steel products by water from the Chicago and St. Louis Districts to all destinations in 1981 amounted to 2,600,000 tons with a mill value of about $786,900,000. Waterborne shipments from the Pittsburgh and Cincinnati Districts aggregated some 2,100,000 tons with a mill value of about $1,100 billion. For the four districts combined, the waterborne steel represented the production of about 16,600 steel industry workers and a payroll exceeding $500 million, in addition to comparably large employments and incomes in suppliers industries.

Benefits to Iron Ore Mining, Railroads, and Lake Carriers. It must be emphasized that the involvement is not confined to the steel districts. About 4,500,000 net tons of iron ore and concentrates were consumed in 1981 in the production of the waterborne steel. The Lake Superior mining industry, as well as the railroads and lake carriers which serve it, thus have a sizeable stake in the movement of steel products on the rivers.

The iron ore consumed in production of the waterborne steel in 1981 represented income in the Lake Superior mining and beneficiating industry of about $91,600,000. Railroads carry this ore from the Minnesota and Michigan mines to upper lake ports and, in 1981, earned revenues of about $15.2 million in doing so. Additional railroad revenues are generated in moving the ores from lower lake ports to the Pittsburgh and Cincinnati Districts. In 1981, these amounted to about $20 million, for a total railroad revenue of some $35,200,000. Of course, aggregate ore traffic generated several times this much revenue. These figures are only for that portion of the ore movement devoted to the production of the waterborne steel moved downstream on the Illinois and Ohio Rivers.

Adding to this the affected revenues of lake carriers and terminals, the involvement in modernization of the Ohio and Illinois Rivers, as well as the Upper Mississippi, is regionally very extensive.

THE CHEMICALS INDUSTRY

The utilization of the inland waterways by the chemicals industry is an important factor in the provision of jobs and incomes throughout extensive sectors of the industry. The latest year for which the Bureau of the Census reports industry employment and payrolls regionally is 1977. In that year, about 33,300,000 tons of chemicals were moved on the inland waterways. Reflecting the long hauls, much between the Gulf Coast and nothern destinations, the average 1977 waterway haul was 716 miles. At national average rates of employment and payrolls per ton, the inland waterborne movement represented jobs for over 90,000 persons and payrolls exceeding $1.4 billion. The payroll, of course, would be much higher today.

Chemicals and Consumer Goods.—The importance of the chemicals industry to American society extends far beyond the industry itself. The industry's products are essential to the American standard of living. They include medicines, wrappings for foods, drugs, and other products, containers, preservations, fibers and fabrics, building materials in wide variety, materials for furniture, fixtures, applicances, and machines, automobile parts, cleansers, and innumerable others. Every household in the country benefits directly from the industry's productivity.

Chemicals and Agriculture.—Chemicals are notably important to farming, not only for the control of weeds and insects, but, even more, for high land productivity attributable to chemical fertilizers. Chemical products thus account for a very large portion of the country's supply of foodstuffs and fibers, not only for the domestic consumer but, as well, for export.

Chemicals and Other Industries.—Chemicals are also important to consuming industries, such as steel, paper, glass, non-ferrous metals, food processing, and numer-

ous others. As a large consumer of petrochemicals, the industry provides substantial by-product revenue to petroleum refining, with consequent benefits in lower prices to consumers of gasoline, diesel fuel, fuel oil, and other petroleum products.

The Role of Waterway Carriage in Chemicals Logistics.—The bearing of waterway carriage on the role of chemicals in the national economy is well illustrated by movements serving the Ohio River Basin. In 1981, these movements constituted about 30 percent of the nationwide tonnage.

The Ohio Basin chemicals industry involves complex logistical and market relationships. To a large degree, however, much of the valley industry is a linkage between receipt of crude and intermediate chemicals by water and finished product shipments by rail and truck. The major logistical flow consists of a large volume of waterborne feedstocks and intermediates received from the Gulf Coast and the Lower Mississippi Valley into the Ohio Basin. These include such bulk chemicals as sodium hydroxide, liquid sulphur, sulphuric acid, alcohols, benzene, toluene, xylene, and numerous others. A substantial portion of the valley industry is devoted to processing these receipts into finished products for small-lot distribution by rail and truck throughout the Northeast Quadrant of the United States. Some markets are naitonwide, as in the case of agricultural chemicals.

Much of the industry's future in the Ohio Basin thus depends on a highly efficient transportation system by the three interlinked modes. Unfortunately, a number of deteriorated and obsolete navigation works on the Ohio River and its tributaries progressively undermine the intermodal linkage. These works include structures on the Ohio River at Gallipolis, Ohio, and Locks Nos. 52 and 53 near the mouth, as well as the antiquated Winfield Locks on the Kanawha in West Virginia.

Waterwway Congestion as a Constraint to Growth.—The chemicals industry is a major source of jobs and incomes in the Appalachian region. With modernized navigation works the outlook would be very favorable. The Ohio River System carried 11.1 million tons of chemicals in 1981. The consulting firm, Robert R. Nathan Associates, under contract with the Army Corps of Engineers, projects a chemicals tonnage on the system in 1990 of 16.5 million and, in 2000, of 22,400,000 a doubling of the 1981 movement.

Without modernization of the antiquated lock installations, however, these tonnages will simply be unable to move. For example, in its engineering and economic evaluation of the Gallipolis project, the Corps of Engineers forecasts that, without capacity enlargement, in 1990, 23.3 percent of the projected all-commodity tonnage will be eliminated from the traffic. Chemicals would share in this loss.

The bearing on Ohio Valley employment and incomes may be inferred from recent performance of the Valley's chemicals industry. In 1977 (the latest year reported by the Bureau of the Census), chemicals plants in the fourteen metropolitan areas on the banks of the Ohio River and its navigable tributaries shipped over $8.6 billion worth of products and employed 60,500 workers. Nationwide, in 1977, the chemicals industry shipped 367.3 tons of products per employee. On this basis, the waterborne tonnage on the Ohio River and its tributaries that year sustained about 20,900 jobs and provided payrolls exceeding $328,600,000. The Nathan projection thus suggests for the year 2000 something like 25,000 additional jobs in the Ohio Valley chemicals industry and an increase in payrolls of some $400 million, stated at 1977 wage levels. In the depressed Appalachian region, the stake in an adequate and modernized waterway system is thus very high.

The Upper Mississippi..—The outlook on the Ohio Basin is paralleled by that of other regional centers. For example, in 1981, about 7 million tons of chemicals were received by water in the St. Louis area, the Upper Mississippi, and the Illinois Rivers. Farm fertilizers were an important portion of this tonnage. The implications for employment and incomes correspond to those in the Ohio Basin.

AGRICULTURE

Low-cost bulk transportation is particularly critical for American farming for the following reasons: (1) Per dollar value of product, farming is, by nature, a vast user of land area and widely dispersed. (2) The largest volume of U.S. farm production is in the continental interior in the upper middle western Corn Belt and the western Wheat Belt, at great distances from most metropolitan centers of consuming populations and from the coastal export ports. (3) Because farm products are sold and priced on the world market in competition with numerous foreign farm origins, very little of increased transportation cost from the interior to the coasts can be passed on to the purchaser, and savings in transportation accrue mainly to the American farmer. For these reasons, the Great Lakes, the Columbia River, and, even more,

the Mississippi River and its tributaries, all linking the interior with the coasts, are the central logistical support of U.S. farm prosperity.

Growth in the Volume of Waterborne Farm Crops.—The enormous growth in the shipment of farm products on the inland waterways has been one of the most remarkable transportation developments of the Twentieth Century. In 1955, the inland waterways carried 5.2 million tons of grains and soybeans; in 1970, 24.2 million tons; and, in 1981, 65.4 million. The largest movement is that from the Middle West downbound on the Mississippi River for export. In 1981, this movement consisted of 1.9 billion bushels with a farm value of $6.9 billion. As a measure of magnitude, this was equivalent to 143 percent of the total gross farm income of the entire State of Missouri. Principal originating states include Minnesota, Iowa, Missouri, Illinois, and Indiana.

The Columbia River is likewise an important outlet for farm crops. In 1981, the Columbia carried 331 million bushels, principally of wheat, barley, and rye, with a farm value of $1.2 billion.

Diffusion of Benefits in Farm Regions.—The contribution of these movements to farm income extends throughout the producing regions. Virtually all the waterborne grain shipments originate at inland farms, many miles from the rivers, and are carried to waterside terminals by rail or truck for transfer to barges. Throughout the farming regions, waterway competition has induced the railroads to institute multiple-car rates competitive with barging charges. In this way the waterways contribute, as well, to realized farm income in localities where crops are rarely or never shipped by water.

The Pattern of Water-Competitive Railroad Rates.—The competitive railroad rates generally (but not always) begin some 60 miles or more from the rivers. At this distance the overland charge to riverside begins to get high enough to make a competitive all-rail rate attractive to the railroad. For example, Iowa City is only 56 miles from the Mississippi River terminals at Davenport. Everything goes by river. Some country elevators in the Iowa City area do not even have railroad sidings or connections. By contrast, Marshalltown, Iowa, is 147 miles from the Mississippi. The truck-barge charge to New Orleans, including truck-barge transfer, is about 47 cents a bushel. The Mississippi River on the Iowa border is frozen during the winter, so the truck-barge routing involves inventory charges and impairs timing for favorable markets. Therefore, the all-rail rate to the Gulf doesn't quite need to match the truck-water routing. The all-rail rate, therefore, was set for 75-car movement at 53 cents a bushel (1980 rate).

Still farther west, at Jefferson, Iowa, the truck-barge charge to New Orleans, including truck-to-barge transfer, amounts to about 55 to 57 cents a bushel. The all-rail rate at 58.2 cents for 75-car shipments of corn meets this more easily. So, Jefferson ships almost entirely all-rail at rates dictated by waterway competition.

Railway rates competitive with the Mississippi River and its tributaries apply also to both export and domestic movements to the Atlantic and Pacific coasts. Farming areas in the western Corn Belt and in the Wheat Belt have access to barge terminals on the Missouri and Upper Mississippi Rivers. Western railroads meet this competition with multiple-car rates to the Pacific Coast. An important waterborne movement of feed grains is that from the Corn Belt via the Mississippi, Ohio, and Tennessee Rivers to the poultry and animal feeding industry of the Southeast. The "Big John" multiple-car rates of the Southern Railway are directly competitive with this movement. With the unification of the Chessie System Railroads and the Family Lines under the CSX acquisition, water-competitive grain rates which had been in effect on the Family Lines origins in Illinois and Indiana were extended in 1981 to middle western Chessie System origins as well.

Magitude of Waterway Grain Movements.—Barge shipments of grain destined for export reached a record of 40.3 percent of total U.S. export grain in 1980, according to reportings of the U.S. Department of Agriculture. The corn moved downstream via the Lower Mississippi River from the upper basin was equivalent to 43.4 percent of all the farm sales of corn in the five-state area of Minnesota, Iowa, Missouri, Illinois, and Indiana. These figures, however, understate the impact of waterway transportation on farm income. In addition to the waterborne movements, by far the greater portion of all-rail grain shipments moves at water-induced rates. The salutary influence of the barge traffic on the Mississippi and its tributaries thus permeates virtually every county in the Upper Mississippi Basin.

Similar observations, although of a lesser magnitude, apply to the influence of movements on the Columbia River and the Great Lakes.

Farm Chemicals, Fertilizers, and Fuels.—In addition to raising farm income, waterway carriage restrains the costs of farm production by bringing into the farming regions such supplies as chemicals for weed and insect control, commercial fertiliz-

ers, and fuels. In 1980, the tonnage of commercial fertilizers carried upbound by river barges into the Upper Mississippi and on the Ohio Rivers was equivalent to 26.8 percent of all the consumption of commercial fertilizers in the five-state area of Minnesota, Iowa, Missouri, Illinois, and Indiana. Much of this tonnage originated at such distant places as Florida, the western Gulf Coast, and eastern Tennessee. As in the case of outbound grains, railroad rates on fertilizers are frequently controlled by waterway competition.

Mechanized farming, of course, is a large consumer of motor fuels, and the waterborne carriage of gasoline and diesel fuels improves farm supplies and restrains costs. In 1981, the gasoline delivered by barge in the reach of the Mississippi River upstream from the mouth of the Missouri was equivalent to 27.9 percent of the total gasoline consumption of the State of Iowa.

Waterways Policy and Agriculture.—The Senate now has before it such questions as the construction of a dual lock at the site of the new Lock No. 26 on the Mississippi River. Before very long action will be under consideration with respect to the deteriorating Locks Nos. 52 and 53 near the mouth of the Ohio. The need for enlarged capacity at the Bonneville Lock on the Columbia is under evaluation. Meanwhile, the proposal as to cost-recovery user charges differented by river segments is to be weighed. There is no area of concern more fundamental to the resolution of these questions than the role of inland waterway transportation in the strength of American agriculture.

BITUMINOUS COAL

The U.S. inland waterways are an important agency in the national energy supply. In 1981, of all the inland waterborne tonnage, 26.7 percent was bituminous coal. Another 28.1 percent was crude oil and petroleum products. The waterborne coal tonnage, including that originated by rail and truck, was equal to 34.4 percent of that carried all-rail.

Transportation Cost as a Barrier to Coal Utilization.—In the national program for energy sufficiency and security, greater reliance on our abundant reserves of domestic coal is of high priority. The most serious barrier to this objective is the high cost of transportation. In 1979, the average railroad charge per million BTU's for hauling coal 100 miles was 9.15 cents. The average pipeline charge per million BTU's of petroleum fuels for the same distance was only 2.64 cents. The actual contrast was even sharper because pipeline routings are less circuitous.

Potential for Increased Gulf Coast Coal Consumption.—Because of high transportation cost, coal utilization now approaches its optimum only in the coal-producing regions—the Ohio Basin, the Middle Mississippi Basin, and the Great Plains states of the west. Most energy consumption is in the form of motor fuels and thus, pending the emergence of larger volumes of coal liquifaction, inescapably petroleum based. Most of the conversion to coal will thus have to be by electric utilities. Such a conversion will have to occur mainly in the coastal regions.

In 1980, the coal-producing states of the Ohio and Mississippi Basins derived 40.2 percent of their energy consumption from coal. In the coal-producing states of the Great Plains, 35.4 percent was so derived. These percentages are close to maximum. But, in the five states on the Gulf Coast, only 10.3 percent of energy consumption was derived from coal.[1] This was because the coastal states produced relatively little coal and the cost of transporting it there from the interior was too high. If consumption on the Gulf Coast had been at the same percentage as that in Ohio and Mississippi Basins (40.2 percent), the Gulf states would have consumed nearly 200 million tons more than they did and consumed correspondingly less petroleum fuels and gas. The coal would have displaced the equivalent of about 850 million barrels of fuel oil. A very large increase in coal transportation to the coastal states is thus of the essence in the national program for conservation of petroleum fuels.

Downbound Coal on the Mississippi River.—The principal role of the inland waterways in this conversion is to move coal from the Ohio and Upper Mississippi Basins to the Gulf Coast. In 1981, this movement amounted to 19.2 million tons. Most of this coal was carried eastward via the Gulf Intracoastal Waterway and the open waters of the Gulf to power plants in Mississippi, Alabama, and Florida, and some westward to Galveston, Texas.

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[1] Ohio and Mississippi Basin States: Pennsylvania, West Virginia, Kentucky, Alabama, Tennessee, Ohio, Indiana, Illinois, and Missouri. Great Plain States: Colorado, Montana, Utah, and Wyoming. Gulf Coast States: Alabama, Florida, Louisiana, Mississippi, and Texas.

The river movement holds promise for major expansion. The Burlington Northern and other western railroads carry low-sulphur coal in rising tonnages from Wyoming origins to rail-barge transfer terminals on the Middle Mississippi and Lower Ohio Rivers. Rail-water coordination is proceeding also on the upstream reaches of the Ohio River and its tributaries.

Coal Exports.—In addition to its role in the U.S. energy program, the downbound movement of coal on the Mississippi offers high promise for strengthening the balance of payments via growing exports. In 1981, about 13,600,000 tons were exported by the ports of Baton Rouge and New Orleans. An additional 7,600,000 tons were exported at Mobile. Large private investments are being made in the expansion of Gulf Coast export terminals, particularly in the areas of Mobile and New Orleans. In 1982, the reported capacity of these terminals was 34,500,000 tons, with an additional 19 million tons of capacity under construction. The completion of the Tennessee-Tombigbee connection will bring additional coal fields into economical access to the Port of Mobile and promises thereby to expedite export development.

Coal Mining Employment and Payrolls.—Coal mining is the principal and often the only source of income for numerous localities in the coal fields. Of all the coal shipped on the inland waterways, about 80 percent originates on the Ohio River and its navigable tributaries. Most of this coal is produced in the Appalachian region, and depressed conditions prevail in many of the mining communities.

The long-term outlook for the Appalachian sector should be very good. In 1981, the Ohio River System carried 111,600,000 tons of coal. The consulting firm, Robert R. Nathan Associates, under contract with the Army Corps of Engineers, projects a coal movement on the system in 1990 of 183,500,000 tons, an increase of 66 percent.

Should this expectation be realized, the 1990 mine value of Ohio Basin waterborne coal would be $5.9 billion in 1981 prices, up from $3.6 billion in 1981. It would also mean jobs for about 69,100 mine employees in the production of the riverborne coal, up from about 42,000 in 1981.

The latest year for which the Bureau of the Census has published coal mine payrolls is 1977. At average 1977 payroll per ton nationwide, the earnings in producing the 1981 waterborne tonnage on the Ohio River System would have amounted to $646 million. At the same compensation rates, the Nathan projection for 1990 would generate payrolls of about $1 billion in the basin industry.

Inadequacy of Existing Navigation Works.—These prospects are clouded, however, by the deterioration and obsolescence of several of the navigation works through which this coal will have to move. Locks Nos. 7 and 8 on the Monongahela River are in a stage of terminal deterioration. Three antiquated lockage structures on the Upper Ohio in the vicinity of Pittsburgh impose costly delays on transits of vessel units of modern dimensions. Downstream at Gallipolis, Ohio, congestion is already a problem and is getting worse. In my preceding remarks as the chemicals industry I pointed out that, in its engineering and economic evaluation of the Gallipolis modification project, the Corps of Engineers forecasts that, withouit capacity enlargement, in 1990 23.3 percent of the projected all-commodity tonnage will be eliminated from the traffic. For the projected coal movement, this would mean a loss of over 8 million tons in that one year.

The Winfield structure on the Kanawha is likewise of obsolete dimensions. At the mouth of the Ohio, the temporary Locks Nos. 52 and 53 are of uncertain reliability. It is clear that the future of the coal industry and its potentials for achieving national goals as to energy supply, employment, and income are critically at stake in the waterway modernization program.

PETROLEUM PRODUCTS

I have already commented on the importance to small distributors and marketers of the shipment of petroleum products on the rivers. The use of barging by independent operators maintains a high degree of wholsome competition in the marketing of these products. In 1981, apart from crude oil, petroleum products constituted 21.3 percent of the total all-commodity tonnage moved on the inland waterways.

Competition with Product Imports.—Riverborne carriage of petroleum products is also helpful in minimizing product imports. These products carry substantially higher prices than crude oil does, so that import restraint has a substantially more favorable impact on the balance of payments. In western Pennsylvania and elsewhere in the Upper Ohio Basin the waterborne products of domestic refineries on the Ohio and Mississippi Rivers are in direct competiton with those from the Middle Atlantic Coast, the latter including a larger component of both crude and product imports.

Supply of Petroleum Fuels.—River barging is very important to the supply of petroleum fuels in numerous basin communities. In my comments on agriculture, I have already mentioned the large quantity of gasoline delivered by barge of fuel oil, in addition to other petroleum products, to terminals in the Upper Mississippi Basin.

Other regions similarly reliant on the rivers for fuel supply include numerous Ohio Basin communities. The gasoline delivered to the vicinity of Charleston, W. Va., on the Kanawha river in 1981 was equal to 21.2 percent of the state's total gasoline consumption. In addition, large quantities were delivered to West Virginia communities on the Ohio River.

The gasoline delivered to ports on the Cumberland and Tennessee Rivers in 1981, in addition to that received at Memphis on the Mississippi, was equivalent to 25.7 percent of all the gasoline consumed in the State of Tennessee. Other examples could be cited, not only with respect to gasoline, but also as to fuel oil, kerosene, jet fuel, and other petroleum products.

In such communities as the Appalachian area where tourism is an important industry and source of income, the low cost availability of gasoline and diesel fuel is of considerable value to community livelihood. It is also supportive to the trucking industry and to industrial development related to highway transportation.

CONCLUSION

I have sought to point out, Mr. Chairman, the far-reaching influence of inland waterway transportation, throughout extensive regions of the country, in its bearing on employment, incomes, the balance of payments, the vitality of water-based industries, and the supply of essential materials and energy forms. The particular industires I have cited are those which appear of greatest importance. Numerous others are also involved.

I hope that these comments will clarify the importance of expedited action in the modernization of the waterway system. The system, apart from a limited number of choke points, has great unutilized capacity, and the relief of congestion and traffic interruptions at these particular points will contribute greatly to a healthy and expanding industrial and agricultural base in the national economy.

Senator DANFORTH. Thank you very much, gentlemen.

Colonel Haar stated his views with respect to user fees.

Do you agree with those views, Professor?

Mr. BARLOON. The question of user fees involves a number of considerations. One important one, Mr. Chairman, is that no systematic study has been made as to the portion of outlays on the inland waterways allocable to the navigation function. There are many joint functions involved. For example, on the Ohio River, a number of navigation lock and dam structures were built in the 1950's and 1960's identified in authorization only as navigation works. These structures provide a very substantial water supply function. They also have a hydroelectric power capability which was never identified in the authorization by Congress.

The question is how much of these costs of constructing and operating and maintaining these facilities should be charged to these other functions? Flood control is involved, pollution abatement; this is one problem.

Senator DANFORTH. You have never seen a study, any study, or you have never seen a good study on the question of the relative allocation of costs?

Mr. BARLOON. Three studies were made some 2 years ago by the Corps of Engineers of the Pittsburgh District, the St. Paul District, and I believe either St. Louis or Rock Island, I am not sure which, to see if a cost allocation study could be made, if the idea of allocating costs is a feasible one. Their findings were inconclusive, so that they were not truly cost allocation studies and did not purport to be.

These are the only official ones that I know about.

Senator DANFORTH. Can it be done, do you think?

Mr. BARLOON. Oh, yes, it certainly can be done.

You see, Mr. Chairman, in private industry there is a great deal of allocation of costs as between joint functions and joint products, conspicuously in the oil refining industry, likewise in meat packing and preparation.

Senator DANFORTH. Do you have a suggestion as to who should do it, for example, the General Accounting Office?

Mr. BARLOON. I think, Mr. Chairman, that the Army Corps of Engineers, working with contracts with private consulting agencies, would be a desirable agency.

As you know, the Army Corps of Engineers in many of its economic studies relies upon consulting agencies such as Robert R. Nathan, Battelle Memorial Insitute, and similar capable organizations. I think that kind of an approach would be a good one.

There may be others; I have not thought about it.

Senator DANFORTH. Of course, the debate on user fees always boils down to a question of relative subsidies. That is to say, the advocates of user fees claim that the inland waterways system is maintained by the Corps of Engineers, that that amounts to a subsidy for one mode of transportation. The opponents of user fees argue that that is true; however, there are other subsidies for rail transportation. The opponents cite the original granting of railroad rights-of-way, the taking over of passenger rail transportation, railroad retirement, and so forth.

Do you know of any studies as to the relative subsidies of competing modes of transportation; that is, any efforts to turn apples and oranges into apples and apples?

Mr. BARLOON. A study was made by Jesse Friedman Associates, a firm here in Washington, a few years ago seeking to sum up the picture of the subsidies to railroads, and Senator, I know there have been other studies of subsidies to the railroads.

If you wish, when I get back to my office, I can check my files and find out what some of these are.

Senator DANFORTH. I think we can find them out. I was just interested in whether you had a view as to what was particularly good or worth looking at.

Mr. BARLOON. Yes, Senator, I do have a view.

Transportation is not like other industries. You cannot leave everything to the unregulated, unsubsidized market in transportation because a nation is inherently geographical. The Nation does not govern people as people; it governs people in terms of the territory in which they live. There are two Senators from each State, and each Congressman comes from a district, and every empire and every nation in history that achieved greatness was profoundly concerned with transportation, because it is by virtue of transportation between the various regions that they are knitted together into a commonwealth. Whether it is the Panama Canal or whether it was Roman policy on developing the ports in the Second Century A.D., it is inherent that there will be subsidy of transportation in any progressive nation. This is true anyplace in the world.

So that when I see transportation being subsidized, I regard transportation as not distinctly and exclusively economic; it is very fundamentally political. That is one point.

Senator DANFORTH. Right. But I think that the question is where should we look to find an analysis of how much of a subsidy is now going to each competing form of transportation.

Mr. BARLOON. I think the amount of the subsidy is not so much one of competitive equity. I do not think we should seek to subsidize each mode about equally with each other, but rather we should look at the public benefits involved. I think the question is the benefit to the shipping and receiving economic activities, industrial and agricultural.

For example, in the case of locks 7 and 8 on the Monongahela River, if those locks are not replaced between now and the end of the century, all traffic on the upper Monongahela River will cease permanently. In two counties of northern West Virginia, 35 percent of the coal production will not be produced because 35 percent of the production of those two counties moves by locks 7 and 8.

The issue, therefore, of whatever subsidization may be involved in replacing locks 7 and 8 has to do, I think, with the fate of all those coal miners and of those communities in northern West Virginia that will be shipping coal via those locks, in addition to the utilization of that coal by the Pittsburgh steel industry and the electric energy industry of western Pennsylvania. I believe that is the criterion to which we should look.

Senator DANFORTH. Other than the user fee question, do either of you have any other suggestions you would like to make to us as to what we should be doing about the barge industry?

Mr. HAAR. Mr. Chairman, coming back on the user charge issue, I think Mr. Roe over in the House, Chairman of the Water Resources Subcommittee of the House Public Works Committee, has just in the past week introduced a new authorization bill. I believe in that he suggests that customs revenues should be reallocated within the Federal system to handle all Federal costs on channels 14 to 45 feet, with 50–50 cost-sharing over 45 feet.

Now he is silent on the shallow-draft, but I would suggest in the shallow draft that there be no new user charges for the shallow draft other than the fuel tax that is already on the books.

Senator DANFORTH. But other than the user fee question, do either of you have any other suggestions to the Congress for what we should be doing to improve the health of the barge industry?

Mr. HAAR. I think from my viewpoint, sir, the big thing is for the U.S. Government and all the entities that are involved at the State level in trade and commerce promotion and development and the port industry should work together to promote new business and new markets for U.S. agriculture and coal products so that we can revitalize the economy of this Nation and put those barges back to work. I think that is very, very important, and I think holding these user charges down to minimal or nonlevels is part of that whole thing.

Senator DANFORTH. Export coal and grain. That is your view?

Mr. HAAR. Export coal and grain, and particularly the grain, as I mentioned in my remarks, has a favorable balance of payments overall of what is exported, whereas the Nation's total export trade

has a negative balance. That speaks for itself as a tremendous opportunity area.

In the example I gave you of West Germany with only 60-some million people having the same share of the world market as this Nation, it certainly indicates that we as a Nation at both the Federal, State, and local levels have got to do a better job in trade development, trade promotion, and getting a better share of world markets.

Senator DANFORTH. Professor?

Mr. BARLOON. Mr. Chairman, I have not had occasion to study the financial condition or the operations of the barge industry as such. My studies have been mainly connected with proposed improvements of the Inland Waterways System.

With regard to user charges, however, I think that we should bear in mind that for many years' advocates of user charges proposed a gradual phasing in. We now do have a gradual phasing in under way.

It seems to me, therefore, that the objective of the advocates of waterway user charges has been fulfilled, as far as October 1, 1985, I believe is the date when the tax reaches 10 cents a gallon. It would seem to me that at this time the thing for us to do would be to continue with the user charge program as it is, escalating the fuel tax year by year to the 10 cents a gallon in 1985, and at that time, to see where we are. At that time we will have better estimates as to the prospective government outlays on modernization of the inland waterways system. At that time we may have some progress toward cost allocation as between navigation and other functions.

It does seem to me that by all means, the best form of user charge, if it is to be increased above 10 cents a gallon, is in the form of a fuel tax. We have had many years' experience with fuel taxes on the highways, and we know what we are doing with fuel taxes.

The cost recovery proposals that have been advanced from other sources from time to time have been very novel, very hazardous, and very risky. We do not know what the impacts would be. We know how the fuel taxes work. It seems to us that should be our program with regard to user charges.

Senator DANFORTH. Putting the question of user fees to the side, do you have any other suggestions?

Mr. BARLOON. Senator, no. As I said, I have not studied the particular financial problems of the carrier industry. Improvements on the inland waterways have such long lead times that they could not benefit the industry for a number of years.

With regard to the Gallipolis project, as early as it can be completed is 1990. By that time, the immediate crisis in the carrier industry will have been resolved one way or the other. It is also true of other projects.

One thing, though, about the proposed improvements, if we get authorization of a dual lock at lock no. 26 and at Gallipolis and Oliver and elsewhere where there are serious bottlenecks, investors and business firms will continue to maintain existing investments because they will then know that in the long run they will still

have access to their markets and essential supplies through those facilities. So that is a positive effect for the early future.

Senator DANFORTH. Thank you very much, gentlemen.

Next we have Mr. Renshaw and Mr. Haffenreffer.

STATEMENTS OF EDWARD RENSHAW, CHAIRMAN, ST. LOUIS SHIP; AND JOHN D. HAFFENREFFER, ASSISTANT VICE PRESIDENT, CENTERRE BANK

Mr. RENSHAW. Mr. Chairman, I am Edward Renshaw, chairman of St. Louis Ship, a major inland shipyard. We are a division of Pott Industries Inc. which, in turn, is part of the Houston Natural Gas Corp. family. This year marks the 50 anniversary of St. Louis Ship, but the occasion does not call for celebration. After 50 successful years of operation, St. Louis Ship today finds itself in the most difficult period of its existence.

Less than 2 years ago, we operated three shipyards, at St. Louis and Caruthersville, Mo., and at Paducah, Ky. They were all operating at full or near-full capacity building towboats and various kinds of barges. We were the industry leader in towboat construction, and, overall, one of the largest inland shipbuilding operations in the country.

Because of ever-increasing demand for dry cargo barges, we embarked on a major modernization program at our Caruthersville operation, and it is at this time probably the most modern shipyard in the country. It is also virtually an empty shipyard. From production of 24 barges per month in December 1981, that yard now produces 2 barges a month.

Overall, for all of our three shipyards our employment has gone from 2,200 to 700; our union employment has dropped from 1,730 to 480 men and women. The Paducah yard has abandoned new construction and is struggling to stay open with repair work only. It is currently for sale. The main yard in St. Louis would be closed except for an order placed by our parent corporation. And, while this order is not for the type of vessel we normally build, it has helped us to keep our key employees, and that is our strategy as of today.

Once a shipyard closes down, it cannot be reopened easily. Thus, we are virtually compelled to quote prices which would have been unthinkable even 18 months ago—one cannot stay in business long by charging only variable overhead, but that is the only way we can achieve any work at all today.

The situation at St. Louis Ship is by no means an isolated incident. We recently made a survey of our 10 most important competitors. In the space of 1 year these competitors were forced to lay off close to 90 percent of their employees. Two or three of these companies have shut down completely, and several others are very close to doing so. Some will undoubtedly never open again.

I am also a past chairman of the American Waterways Shipyard Conference, the national trade conference of the smaller and intermediate-sized shipyards; and I can assure you, Mr. Chairman, that the situation of all 70 yards in our membership is similar to ours.

In 1981, industrywide direct employment neared 50,000 men and women. This translates into many more jobs throughout the econo-

my as past studies have shown that 3½ workers in affiliated industries support each shipyard job. Today, employment is less than 12,000 people, which means a ripple effect of more than 100,000 people. In short, the depression in our industry has already cost close to 150,000 jobs.

Now, the reasons for this sudden and precipitous decline are many. The years 1978 to 1981 were excellent years for our company. The demand for equipment was fueled by a consensus of the experts that both coal and grain exports were going to rise steadily throughout this decade. This spurred an already competitive barge industry to plan for the equipment necessary to compete for this business.

Because of the ease of entry into the business, new competitors started to plan for the increased business; at the same time, the Federal tax laws produced a large number of investors with little or no long-term interest in the business whose equipment is now adding to the oversupply of barges.

I need not elaborate to this committee on the reasons why this export boom did not materialize. You have heard from the previous speakers that the Soviet grain embargo, the strength of the dollar, and even the unusually mild weather in Europe have combined to reduce exports to a relative trickle. The result is an oversupply of equipment chasing an undersupply of cargo. That spells trouble for the waterway transportation industry and trouble for our industry which is dependent upon the health of the barge industry.

I have been with St. Louis Ship for 33 years. Like all businesses, we have had our ups and downs. But the current depression in our industry—and I use that word deliberately—is unlike any we have experienced before. Never have we been pushed so low, and never has the duration of the low been so long. Indeed, we do not see any relief from our current predicament for at least 18 months or 2 years.

Under these circumstances we cannot help but think about the survival of our industry. There is a limit to how long even the most solidly capitalized company can hang on with virtually no money coming in. Once any company in our industry reaches that limit, the only alternative is to shut down operations. And as I have mentioned before, one cannot turn an industry such as ours on and off like a spigot.

The demise of our industry would have the gravest consequences. I do not mean this solely in terms of the impact on our thousands of employees or the local economies dependent on our presence. In addition, our industry plays an important part in the national security.

During World War II, St. Louis Ship produced numerous landing ship tanks, or LST's as they are commonly called, and oceangoing tugs for the U.S. Navy. Today, our shipbuilding capacity for wartime needs still rests with private industry. Government policies for increased national defense should not be undermined by policies that thwart the development and maintenance of the industrial capacity necessary to support that defense effort.

In conclusion, I would like to say that I am pleased to appear in the context of a hearing devoted to the water transportation industry. For the owner-operators who have already spoken are friends

and customers of mine. What happens to them in the next few critical years has enormous significance for St. Louis Ship and its fellow shipyards. We simply cannot hope to climb out of our depression until they have climbed out of theirs.

In short, I would hope that this committee and the rest of the Congress would understand after these hearings that the crisis confronting the water transportation industry is more than just the balance sheets of a few barge companies. The shipyard industry is pleased to add its support to the barge industry in its effort to bring the facts of the current situation to the attention of Congress.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, sir.

Mr. Haffenreffer.

Mr. HAFFENREFFER. Thank you.

I am an assistant vice president at Centerre Bank in St. Louis, Mo. We are a major lender to the barge industry, and because of that, we follow the industry very closely. The purpose of my testimony today is to share with you our perspective on the industry and its current depressed financial condition.

Our primary role is to provide financing for the acquisition of new equipment. The mechanics of this financing, in its simplest terms, goes something like this. Banks typically will loan 80 percent of the shipyard cost. Let us assume that an average hopper barge in 1980 cost $300,000—that would mean an extension of credit of $240,000.

On the typical 15-year payment schedule, that comes to $16,000 per year, or, as we usually break it down, $44 per day. The interest rate typically floats relative to prime; in 1980, the average rate was about 15 percent. That figures to approximately $99 per day. In short, the total debt service on a barge in 1980 would be somewhere around $143 per day. Debt service will theoretically be reduced each year based on the 15-year amortization schedule and assuming constant interest rates.

I want to emphasize that this is debt service alone and does not include all the other costs of operating that barge. When I tell you that today that same 1980 barge earns between zero and $20 per day after operating costs, it does not require a lot of mathematical ability to realize that there is real trouble out on the river.

In 1980 this looked to be a sound investment, and accordingly, it is difficult to fault the barge company or private investor for making this investment, nor the financial institutions who financed the deals based on solid lending terms.

The average spot freight rate in 1979 returned to the barge owner $150 to $180 net after all costs of operation. This coverage of debt service looked even better after analyzing the 10 percent investment tax credit on the new equipment and the non-cash expenditure of depreciation and the writeoff thereof.

Mr. Chairman, previous witnesses have talked about the causes of this decline, and I would like to add my list also because our perspective at the bank is somewhat different.

First, we saw in 1979 to 1981 a rate of increase in equipment construction that was well beyond historical trends. Traditionally, the operators had purchased equipment more for replacement than expansion of the fleet. What happened a few years ago was there was

a tremendous infusion of capital from outside the industry—the tax shelter investor barges others have mentioned.

One of the consequences of this unprecedented entry is that today these investors largely rely on barge management companies which are willing to utilize barges at reduced freight rates without regard to debt service and the costs of ownership. The result is to drive rate down for everyone, including long-term operators.

At the same time, companies by necessity have tried to lower costs by better merchandising and logistical trading of their barges to reduce the days per trip and directly increasing the tonnage carriage per barge per year. The expansion of grain export elevator capacity on the gulf coast has also increased, which means less time in port for loading and unloading. The net result is again an oversupply of equipment.

Third, the general economic recession took a heavy toll on the industry. Coal export demand out of New Orleans dissipated almost overnight, and as the coal barges were moved into the transportation of other commodities, they caused an oversupply of equipment in those commodities as well.

Fourth, the industry has been badly hurt by the squeeze of these other factors. Because of high-interest costs and falling freight rates, the industry, which historically carries a tight working capital position due to its capital intensive nature, became very strapped for day to day operating cash.

As a step to alleviate this squeeze, to keep creditors at bay and to stave off insolvency and bankruptcy, companies have dug themselves further into a hole by financing short term through the stretching of trade payables. A company will operate at reduced rates that are below a break-even proposition just to keep cash receivables coming in. Of course, the inevitable result is that the company becomes more insolvent, to the extent that creditors will no longer finance the company and bankruptcy or liquidation results and the resulting losses are greater.

Mr. Chairman, when our bank makes a loan for new barge equipment, it relies on three factors for repayment: the cash flow of the company, the value of the collateral, and personal guarantees. What I have just talked about should give you an understanding of the problems with cash flow today. In sum, there is simply nowhere near a sufficient cash flow to keep up with debt payments.

That brings us to the second source of repayment—the value of the collateral. Over the years, a barge has been viewed as a very solid asset with regard to collateral values. The obsolescence factor is negligible, and the trend during the 1970's indicated that the value would hold steady, if not increase. When the investors moved into the market in a big way several years ago, we expected some downturn. Most banks, including ourselves, figured that to be a maximum of 20 percent. Accordingly, on a worst case basis, 80 percent financing should have provided adequate cushion and collateral coverage. What we have actually experienced is a decline of between 60 to 70 percent.

Let us look back at the original example of barge investment in 1980. Assuming the company/investor has been able to retire debt per the original 15-year amortization schedule as set in 1980, which is presumptuous at best given the downturn in freight rates since

1980, the total debt service is reduced to $102 a day—$44/day principal and $58/interest at 11 percent from $143/day.

Cash flow operations is still nowhere near covering debt service. The outstanding loan balance in 1983 would be $192,000 collateralized by a 3-year old barge at this point. Within the last 4 months new barges have traded between $140,000 to $150,000. Netting the 10 percent investment tax credit, the true cost of new equipment is between $125,000 to $135,000. Again, it is apparent that values throughout the industry have fallen to below break-even levels.

The third source of repayment is usually a personal guarantee. Because this industry is composed primarily of independent businessmen whose life is tied up in his company, the personal guarantee is worth only as much as the company. As is apparent from what I have already said, the net worth of these people has evaporated almost overnight.

These conditions put us at the bank in a very difficult position. By the time it became apparent that the industry was in serious trouble, the value of our collateral had already plummeted. If we foreclosed on the loan and took back our collateral, it would not nearly cover the loan. There is virtually no second-hand barge market today; in roughly 1 year's time we have gone from a very strong market to one with only bargain hunters, and even they are few or far between. If we cannot sell our foreclosed equipment, then we have to pay substantial upkeep and carrying costs.

The alternative to foreclosure is to continue to advance money on the theory that a working entity is more valuable than the sum of its foreclosed parts. The problem here, however, is that you have a financial institution in effect subsidizing one company and not its competitor. This has the effect of allowing the subsidized company to operate below industry levels, which further depresses the rates.

In sum, Mr. Chairman, we at Centerre Bank are keenly aware of the problems in the barge industry. Unlike the case with other kinds of companies, the problems came so fast and the degree to which it occurred was so unexpected that the effects are more pronounced and recovery time much more extenuated.

The bank has not been insulated from the problems in the barge industry, be they past or present. We will make every effort to help the industry through this period and will continue to support them in every way, but time is running short.

Mr. Chairman, thank you for the opportunity to testify before this committee.

Senator DANFORTH. Thank you, gentlemen.

Well, one part of the problem is the recession. Hopefully, we are coming out of that. I must say that because of the size of the deficits, I am less bullish than a lot of other people are. But hopefully we are moving in a positive direction on the recession.

Part of the problem is the reduction in exports. The grain embargo was a disaster. Now we have a long-term grain sale, so hopefully we are moving in the right direction with respect to agricultural exports. I think that it is probably universally recognized in the Congress that to increase exports is in the best interest of our country. I think it is a matter of Government policy; that is, to try to increase exports.

Another part of the problem is that there is an oversupply of barges, and virtually everybody has talked about that today. We accelerated depreciation in 1981, but the big increase in barge purchases was prior to this change in the tax law. So the increase was based on a longstanding tax policy just recently discovered, is that correct? Didn't it become a kind of a fad for people to seek shelters in buying barges?

Mr. HAFFENREFFER. I believe so in this industry, yes.

Senator DANFORTH. You do not recommend any change in the tax laws, do you, or do you?

Mr. RENSHAW. I do not. Railroad cars have been a tax shelter for many years, and I think it is a sign of inflationary times, that all of a sudden barges were of interest. They were the thing to do.

Senator DANFORTH. I do not know of anybody advocating a change in the tax laws. A lot of people are saying we should invest more in equipment than we have in the past. So the tendency has certainly been to try and encourage increased investment. If we are going to keep up with Japan, for example, or any other country, we are going to have to renovate our industrial capacity. It is a little bit difficult to do that and have a tax scheme which is specifically designed to discourage investment. We do not want to discourage investment right now in barge building, do we, Mr. Renshaw? The problem now is that there is an oversupply. I do not have any idea what to do about that, do you?

Mr. RENSHAW. It will take many factors, but obviously the economy continuing to improve, hopefully; a scrapping program to get rid of the old coal barges. This might take care of 10 percent of the barges out there that should be retired but that were kept in service because of the previous economy. But operators are reluctant to scrap these old barges when the price of scrap and the price they get for them is down so low. But there has to be a concerted effort to reduce that population, greater exports that we have heard about and obviously an improved economy. I think the most important thing is to get our story across to Congress about the plight we are in, that we are in very serious trouble—not just the shipyard industry, which of course is secondary and follows the barge transportation industry.

But I think the Congress can remove some of the doubts and some of the fears overhanging our industry, I know we have had much discussion on user taxes and the whole question of equity. If there were user tax laws where there was equity of treatment between modes, it would give a lot of comfort to investors in the long-term viability of the river transportation industry.

Senator DANFORTH. Well, you are preaching to the converted on user fees. I have unsuccessfully opposed them ever since I got here.

Do you have any other thoughts on what we should be doing?

Mr. RENSHAW. I do not, sir. I think, in essence, fair treatment from the Congress, from the administration, is really what we are looking for. If we can improve exports, if it will improve our business, it will improve the whole problem of the deficits we have in export trade.

Senator DANFORTH. Do you have any advice, Mr. Haffenreffer?

Mr. HAFFENREFFER. Advice? From the bank's perspective, we as the operator want to see an earning asset. Right now the barge is not an earning asset.

How do we make it an earning asset? Presently we have an oversupply. We have to bring that demand up. It has been said before the logical way to bring that demand up is to increase grain exports.

Senator DANFORTH. Gentlemen, thank you very much, and thanks to all the participants in the hearing.

That concludes the hearing.

Mr. RENSHAW. Thank you, sir.

[Whereupon, at 11:12 p.m., the hearing was adjourned, subject to the call of the Chair.]

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